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D 8523A

POLAND

Walesa legend faces tough electoral test

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World News

EC leaders see Saddam in power after leaving Kuwait

European Community governments appear to be coming round to the view that President Saddam Hussein of Iraq may well survive in power even if he succumbs to international pressure and withdraws from Kuwait.

There were also suggestions at the weekend that the Soviet Union was preparing to step up its diplomatic involvement in resolving the crisis. Page 18

UAE premier dies

The ruler of Dubai, Sheikh Rashid bin Said al-Maktoum, vice-president and Prime Minister of the United Arab Emirates, has died, Dubai television reported.

More riots in Osaka

More than 1,500 rampaging workers in Osaka set fire to cars and tried to lay siege to a police station in the fifth day of rioting in Japan's second largest city. Page 4

Kerry Packer ill

Kerry Packer, widely regarded as Australia's richest man, was seriously ill in hospital after suffering a heart attack while playing polo. Page 4

Indian austerity

India's Finance Ministry is drawing up austerity measures before an anticipated government decision to seek a loan from the IMF. Page 4

Saumarez triumphs

Saumarez, bought just four months ago by the owner and star of the Los Angeles Kings ice hockey team, surprised the favourites to win Europe's richest horse race, the Prix de l'Arc de Triomphe.

Business Summary

Tokyo bank chief resigns over scandal

A widening stock market scandal in Japan has brought down Ichiro Isoda, chairman of Sumitomo Bank, one of the country's biggest banks. Mr *Isoda announced his intention* to resign and take responsibility for the alleged involvement of a branch manager in illegal loans totalling Y23bn ($173m) made to stock market speculators. Page 18

ROBERT Maxwell announced agreement to sell his Italian consumer publishing operation – MCC Italia – in a deal worth £60m ($113m). Page 20

POLLY Peck International believes *it needs no more than* £200m ($376m) to bridge its immediate liquidity gap if bank creditors agree this week to give it a longer breathing space on debt. Page 20

CANADA's banking industry appears to be smoothing the way for a giant merger or takeover involving some of the country's biggest financial institutions. Page 21

UK electricity groups may try to win telecommunications business after their planned December privatisation. Page 9

COMPAGNIE Européne d'Accumulateurs (CEAC), Europe's second largest lead battery maker, nearly doubled first half net profits from FFr5.2m ($1m)to FFr10.2m. Page 20

PIAGGIO, Italian engineering company which makes Vespa scooters, has taken a 26 per cent stake in LML, quoted Indian motor-scooter maker, as part of a joint venture to develop the production of two- and three-wheeled vehicles in India. Page 21

BRITISH Steel increased its exports to the former West the *Germany by 61 per cent in the* first half of this year. Page 3

Chancellor says priority is to cut UK inflation level to below those of European partners

Timing of ERM entry was not political, claims Major

By Peter Norman in London and **Stefan Wagstyl** in Tokyo

BRITAIN'S decision to enter the Exchange Rate Mechanism of the European Monetary System is an essential step to combat inflation, Mr John Major, the Chancellor of the Exchequer, said yesterday.

The chancellor insisted during a television interview yesterday that the timing of the move – just ahead of the ruling Conservative Party's annual conference tomorrow and immediately after the opposition Labour Party's conference last week – was not politically motivated.

He denied that the purpose of ERM entry was to engineer a "boomlet" in the British economy through further cuts in interest rates before the general election that must be held by July 1992.

Having announced on Friday a one percentage point cut in bank base rates to 14 per cent, he said he would "of course" raise interest rates again if monetary conditions pointed to an inflationary problem in the economy.

During the interview, Mr Major hinted strongly that the government would not be able to keep public spending within the £192.3bn ($361.52bn) total already set for the financial year beginning next April 1.

There were "real pressures" to lift spending in certain areas as the economy slowed down, he said, while the government was also determined to sustain the pledges given to meet certain guaranteed levels of social benefits.

But throughout the interview, the chancellor stressed that his priority was to reduce inflation, first to the level of Britain's European partners and then below that level.

Inflation, he said, had bedevilled Britain's industrial performance and been the "central problem of successive governments for 25 years."

Without lower inflation, individuals and British industry would not be able to achieve their aspirations. The Exchange Rate Mechanism was a "very strong discipline" to bring inflation down. To have stayed outside the ERM longer would have been debilitating and unsettling and have subjected the pound to rumour and speculation.

The chancellor said he wanted to bring British inflation down to zero and keep it close to that level for as long as possible. But he gave no hostages to fortune in the form of a timetable and admitted that zero inflation was in practice hard to sustain because of shifting economic circumstances.

He pledged not to manipulate inflation downwards because "then it comes bouncing back up again." He would cut interest rates further only when it was justifiable and safe to do so. Similarly, he was not going to produce a pre-election boomlet.

"It's unwise economically, it's unwise socially and I actually think it's pretty batty politics as well," he said.

Mr Major said that the government's decision to enter the ERM over the weekend was economically motivated "first, second and third."

The plan to enter the ERM around a central rate of DM2.95 with 6 per cent fluctuation margins for the pound was approved in Brussels on Saturday by the European Community's monetary committee. Sterling's official bilateral

Continued on Page 18

Picture: Tony Andrews

John Major, UK Chancellor of the Exchequer, preparing a speech at home yesterday

Britain's failure to consult angers system partners

By David Buchan in Brussels

IT was billed, in London at least, as a formality – approval of sterling's entry into the Exchange Rate Mechanism by the EC Monetary Committee meeting in Brussels on Saturday.

But if Mr Nigel Wicks of the UK Treasury and Mr Andrew Crockett of the Bank of England ever thought that their 24 colleagues on the committee would simply pop the champagne corks and nod sterling into the parity grid for Europe's currencies, they were quickly disabused of the notion.

The other senior finance ministry and central bank officials – two from each EC state and the European Commission – grumbled that by its unilateral announcement during Friday trading of the rate and fluctuation margin at which it intended to enter the ERM, the UK government had unfairly pre-empted what should have been a confidential negotiation with its EC partners.

Mr John Major, UK chancellor of the exchequer, will get a formal complaint in the report that Mr Mario Sarcinelli, director-general of the Italian Treasury who chairs the Monetary Committee, presents to today's meeting of EC finance ministers in Luxembourg.

At the Saturday meeting, Britain's EC partners voiced concerns that went far beyond the procedural. Indeed, Mr Jacques Delors, the European Commission president, got rather over-excited and tried to get finance ministers to jet in yesterday for a special meeting to discuss the knock-on effect of the UK move for economic and monetary union (Emu).

The ministers declined, seeing no reason why such a discussion could not wait another 24 hours until they gather today in Luxembourg.

Apart from giving UK officials a wigging on procedure, the Monetary Committee's discussion focused on:

● *The rate.* Mr *Sarcinelli* argued for change, *any* change, in the UK's proposed central rate of DM2.95 – simply to teach the British that they could not dictate to their new ERM partners. More substantively, Mr Hans Tietmeyer, the senior Bundesbank board member, argued that sterling should come in at a lower rate that would be sustainable over the longer term. Taking a shorter-term view, officials from France and some other countries advocated a higher rate. Otherwise, they forecast, the pound will behave on entry just like the peseta and bounce right up to the top of its band. In the end, DM2.95 was accepted as a fait accompli.

● The margin. The communiqué talked of sterling fluctuating at 6 per cent "for a transitional period". In fact, only the Commission complained on Saturday that the UK had not immediately plumped for the tighter 2.25 per cent band. One Commission official said the UK government has missed a chance to send a whole-hearted signal of its commitment to exchange rate stability, and that most EC governments were "over-worried" about realignments.

Since the presence of all important currencies within the narrow ERM band is increasingly being touted as a

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ON OTHER PAGES

Financial markets braced for sharp gains in sterling

By Rachel Johnson, Economics Staff, in London

INTERNATIONAL financial markets are braced for more frantic trading and sharp gains in sterling and UK share prices today as Britain becomes a full member of the European Monetary System and interest rates come *down by one percentage point.*

Equities are expected to open up to 40 points higher to register the unofficial gains of Friday's one-hour extension of stock market trading.

The FT-SE 100 reversed a 35-point fall between 4pm on Friday – when the UK Treasury announcement flashed across trading screens – to close up 73.5 at 4.30pm when the index was calculated. After the extra hour, traders reported a further steep rise to well above the official close of 2,143.9.

The announcement caught many dealers short of stock. Analysts expect trading to be equally hectic at the start of the new account today if institutions and foreign investors return to UK equities. The market has been shunned recently amid growing evidence of a UK recession and fears of war in the Gulf.

Sterling is this week expected to rise quickly towards DM3.18 – the upper limit of 6 per cent above its central rate of DM2.95 – as investors seek to profit from the currency's future stability in the exchange rate mechanism. However, the Treasury said yesterday it did not expect that the pound would be so strong that a revaluation would be necessary in the medium term.

A revaluation would require setting the pound's central rate nearer to DM3, the level the pound closed at on Friday. The Treasury pointed out that the pound had weathered a pronounced economic slowdown and a rise in oil prices to $40 a barrel because of the Gulf crisis. The currency had always stayed within a fluctuation band of plus or minus 6 per cent.

The cut in base rates which accompanies sterling's ERM entry this morning has not detracted from sterling's status as a high-yielding currency. The pound gained an unprecedented 8 pfennigs against the D-Mark on Friday.

Analysts said further interest rate cuts were possible because the government had revealed its eagerness to bring base rates down in the run-up to a general election. "Further cuts are likely to temper enthusiasm for sterling and reduce the amount of time it spends at the top of its range," said Mr John Shepperd, economist at Warburg Securities.

In the short term, sterling is expected to appreciate further against the dollar and D-Mark. But Goldman Sachs, the US-owned investment house, warned that "the best time to sell pounds was always likely to be after ERM entry."

US BUDGET

Congressional leaders prepare new package

By Peter Riddell, US Editor, in Washington

A NEW US budget package was last night being put forward by congressional leaders in the hope of breaking the bitter stalemate which has resulted in the formal shutdown of the US government since midnight on Friday.

Essential services, such as the armed forces and air traffic control, have been kept open and the main impact has so far been felt by tourists unable to visit national parks and museums in Washington.

Because today is a federal holiday, Congress has until tomorrow morning to agree the *outlines of a budget agreement* and temporary financing of the government to prevent workers being laid off on a large scale.

The new package will still seek to reduce the federal deficit by *$500bn over five years,* but will change some of the unpopular elements which led to the overwhelming defeat of the original budget agreement by the House of Representatives early on Friday morning.

A *budget* resolution being circulated on Capitol Hill last night set out broad instructions to Congressional committees, which will now have scope to alter the details, ahead of final votes in about two weeks. There was no reference to specific spending levels or tax cuts. The administration will be seeking to minimise the changes to maintain the thrust of deficit reduction. Vice President Dan Quayle yesterday predicted that 90 per cent of the defeated budget deal would remain.

Both Mr Tom Foley, the Democratic House Speaker, and Mr Nicholas Brady, the *Treasury Secretary, yesterday* agreed there would have to be modifications in the proposed $60bn savings in Medicare provision for the elderly.

Mr Foley also suggested that the proposed *increases* in duty *on home-heating oil, which led* to big opposition from the north-east, and changes in unemployment compensation would be reviewed. He said the whole question of tax fairness (including tax reliefs for business) would be reconsidered.

Some Democrats have also called for larger savings in defence spending.

The controversial question of a cut in capital gains tax – dropped from last week's agreement – is likely to be revived and some congressional Republicans have suggested they might be willing to accept higher income tax rates as a trade-off. However, Mr Richard Darman, the budget director, expressed doubts since once rates were raised for some, then soon income tax rates would be raised for everyone.

To maintain pressure and *"discipline"*, Mr Bush on Saturday vetoed legislation approved by Congress to extend temporary funding of the government until the end of this week. He said it was necessary to say, "this is not a *time for business as usual. The* deficit is too important to the American people".

Mr Bush's tough stand – a response to the humiliating rejection of the first budget – ended last week's mood of bipartisan co-operation with the congressional leadership.

Mr Bush is facing considerable criticism for failing to provide effective leadership in his most serious domestic setback.

Mr Foley described the veto as "unnecessary, unjustified, harmful, both to the negotiating process of reaching a bipartisan agreement and to the interests of millions of Americans who will be affected by a shutdown of government". He argued that the president should keep the government going while everyone tried to resolve the budget dispute.

The affair has provoked a good deal of recrimination over *the heavy-handed lobbying of* House Republicans by Mr Darman and, in particular, Mr John Sununu, the White House Chief of Staff. They have been compared to Mr Bob Haldeman and Mr John Ehrlichman, Pres*ident Nixon's two senior staff* disgraced for their role in the Watergate affair. Mr Sununu said yesterday that the White House did not expect to "go through in one fell swoop without any china being broken".

Congress and the zoo mentality, Page 18

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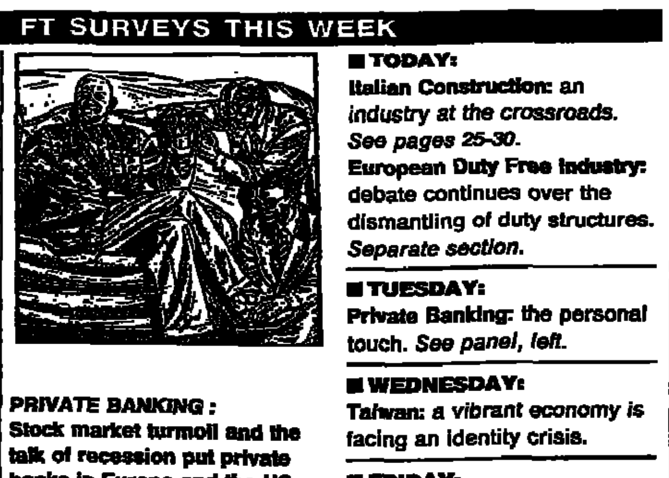

PRIVATE BANKING :
Stock market turmoil and the talk of recession put private banks in Europe and the US on their mettle.
Separate section, Tuesday.

Timetable in doubt for US-Soviet nuclear arsenals pact

By Peter Riddell, US Editor, in Washington

THE timing of the completion of a US-Soviet treaty to reduce arsenals of strategic nuclear weapons looks uncertain despite lengthy talks between the two sides.

After talks with Mr James Baker, the US Secretary of State, in New York late last Friday, Mr Eduard Shevardnadze, the Soviet foreign minister, said progress had been made "on a number of complex issues." However, he was unable to say whether the treaty would be finished by the target date of December.

Mr Baker said work was still needed on the three outstanding issues of non-circumvention (notably a Soviet desire to limit US nuclear co-operation with Britain to the agreed sale of Trident submarine-launched missiles); whether Soviet "Backfire" bombers should be included; and whether the Soviet Union should be allowed to test and update the highly destructive SS-18 missile. Both sides' negotiators have come under fire from respectively the Soviet military and US conservative critics of arms control for making too many concessions.

Part of the problem is that most attention has been centred on completing a treaty substantially reducing conventional forces in Europe (CFE), due to be signed by heads of government of Nato and the Warsaw Pact in mid-November. At their meeting on Friday, Mr Baker and Mr Shevardnadze, who had announced agreement in principle on a CFE treaty late on Wednesday, said they had tied up the loose ends on combat aircraft, helicopters and regional ceilings.

This includes a provision that would prevent each side from removing equipment from Europe before an agreement takes effect in order to evade the requirement that it should be destroyed.

Moscow gives ground in conventional weapons talks

Edward Mortimer looks at Soviet concessions clinching an agreement on reducing forces in Europe

THE Soviet Union has agreed to be outnumbered two-to-one in tanks and other land weapons in Europe by the combined forces of Nato and of the new east European democracies, while dropping its demand for naval forces to be included in the treaty limiting conventional forces in Europe (CFE).

These were the two key concessions wrested from Mr Eduard Shevardnadze, the Soviet foreign minister, by his US counterpart Mr James Baker in talks in New York last week, when they reached agreement in principle on all the main points of the treaty, covering all conventional forces between the Atlantic and the Urals. The treaty is to be signed by the 16 members of Nato and the six remaining members of the Warsaw Pact (the seventh, East Germany, having now ceased to exist).

Details of the agreement have now been disclosed by senior western diplomats in Vienna, where negotiations on the treaty have been going on since March last year. They regard the treaty, which is now certain to be signed in Paris next month, as the most significant arms control agreement ever achieved. It will codify a fundamental change in the European balance of power, and result in the destruction of vast quantities of Soviet equipment under verifiable conditions. Mr Shevardnadze's apparently joking remark last week that "of course, the Soviet Union has made all the concessions" turns out to be almost literally true.

Distribution of the agreed totals of equipment among the east European countries will be thrashed out at a high-level Warsaw Pact meeting in Prague tomorrow and Wednesday, which may be attended by

Baker and Shevardnadze: concessions joke became true

the chiefs of staff of all six countries. But the point of greatest concern both to the Soviet Union and to its notional "allies" – the proportion of the permitted totals in each category which can be held by any one country – was settled between Mr Baker and Mr Shevardnadze.

The principle at stake, known in the negotiators' jargon as "sufficiency", assumed crucial importance as a result of the democratic revolutions which swept through eastern Europe a year ago, causing the effective disintegration of the Warsaw Pact.

Formally the negotiation is still between two opposing alliances, and is based on the principle of equal ceilings for each of them in each category of weapons. But the political reality is that the Soviet Union no longer has any reliable allies, and that the east European states now share Nato's interest in limiting Soviet military strength.

Roughly 80 per cent of Warsaw Pact weapons in most categories belong to the Soviet Union, and until last week Soviet negotiators were struggling to preserve that proportion or as close to it as possible, while the west was seeking to impose a ceiling of 30 per cent of the overall total (ie 60 per cent of one side's total).

The compromise reached in New York allows an overall percentage for ground equipment of 33.6 per cent. The actual totals allowed to each side, and the "sufficiency" levels allowed to any one country, are shown in the accompanying table.

Western negotiators estimate that these levels will require the Soviet Union to destroy 19,000 tanks, while Nato will have to destroy about 4,000. This is consistent with the main object of the treaty, from the western point of view, which is to remove the previous massive preponderance of Soviet conventional strength in Europe.

All surplus equipment has to be destroyed within three years, except that the US has now agreed that each side be allowed to convert 750 tanks and 3,000 armoured combat vehicles to civilian uses.

This was one of the few western concessions in last week's talks, and has still to be ratified by the US's Nato allies. Nato had been suspicious of the Soviet contention that tanks could be economically converted into tractors. Western negotiators now seem satisfied that "conversion" is so precisely defined as to make reconversion for military use more difficult and expensive than building new tanks from scratch. Both destruction and conversion will be subject to rigorous verification procedures.

There is some concern in Nato that the Soviet Union might be seeking to evade the requirement to destroy tanks by withdrawing them east of the Urals before the treaty comes into force. Thus the number of Soviet tanks in Europe has dropped from 41,000 at the beginning of 1989 to 24,000 now and is expected to fall to 21,000 by the end of the year.

There is nothing illegal about this, however, so long as the treaty is not in force. And the West can hardly complain about the withdrawal of Soviet tanks from Europe, after hailing Mr Gorbachev's promise to withdraw 10,000 in December 1988, and the subsequent agreements to withdraw from east European countries, as positive developments of historic importance. Most western negotiators seem disposed to accept Soviet assurances that there is no sinister intent behind the withdrawals, and that the tanks in question will in due course either be destroyed in accordance with CFE procedures, or used to replace older tanks already in Asia, or in some cases sold for export.

The point is also made that tanks beyond the Urals cannot pose any immediate threat to western or even central Europe, and that once the treaty is in force reintroduction of them into Europe would be a clear violation.

The west hopes to win Soviet acceptance that the treaty should come into force on the date it is signed (November 19, 1990), rather than on ratification, so that tanks in Europe on that date will be subject to its provisions.

Another important Soviet concession last week was to agree to bring land-based naval aircraft within the scope of the treaty, without insisting that the same apply to carrier-based aircraft. The US is firmly opposed to any naval arms control agreements, and especially so in the context of a treaty confined to one area of the world, given the intrinsically mobile and "global" nature of naval forces; but it was also determined not to allow the Soviet Union to exempt some of its land-based aircraft from the treaty by declaring them naval. It had apparently begun painting some of them blue. Mr Shevardnadze finally accepted this principle on Wednesday, after the negotiations had, in the words of one participant, gone "right to the wire".

All limitations on manpower have been scrapped from the treaty. The ceilings on US and Soviet forces in central Europe agreed in Ottawa last February – 195,000 each, with an additional 30,000 for the US in western Europe – have already been overtaken by events.

The Soviet leadership decided in the summer that it attached greater importance to limiting the manpower of the united Germany than to that of the US, and Mr Gorbachev obtained from Chancellor Helmut Kohl a binding political commitment that this will not exceed 370,000 (of which ground and air forces together can be 345,000). This commitment will not be part of the treaty but has been read into the negotiating record.

Nato is proposing follow-on negotiations with the same participants, known in the jargon as "CFE 1A", at which manpower levels could be discussed, so that Germany would not be the only country to accept limits on the size of its armed forces. The Soviet Union has not yet replied to this proposal, but the general assumption is that CFE 1A will begin in January.

Conventional forces in Europe (CFE)

Baker-Shevardnadze totals

	ceiling	sufficiency	
Tanks	20,000	13,300	33.25%
Artillery	20,000	13,700	34.30%
Armoured Combat Vehicles	30,000	20,000	33.30%
Helicopters	2,000	1,500	37.50%
Combat aircraft (still being negotiated)		5,150	

Croatia, Slovenia urge new Yugoslav political structure

By Judy Dempsey in Vienna and Laura Silber in Belgrade

YUGOSLAVIA'S two western republics of Croatia and Slovenia have called for creation of a new political structure aimed at establishing an alliance of sovereign states. This confederal proposal would replace the crumbling federal system and, it is hoped, avert the possibility of the country sliding into civil war.

If the proposal were accepted by all six republics, it would formally put an end to the country's post-war structure as created by the late President Josip Tito.

But the plan, unveiled at the weekend, fails to address the future status of the ethnic minorities which are demanding their own autonomy within the republics.

The fragility of the current system was confirmed last week when the 600,000-strong Serbian minority in the republic of Croatia declared its autonomy, after blocking off all roads into Knin where the minority is concentrated.

The Serbs, many of whom now are heavily armed, believe that the new government of Croatia – elected last April – is determined to create a homogenous republic of Croats.

Although Mr Franjo Tudjman, the prime minister of Croatia, has attempted to moderate his nationalist views, the changing of place names in Zagreb, the capital, has fuelled suspicions by nationalist Serbs that their status in the republic will be down-graded.

In one example, the "Square of the Victims of Fascism" has been changed to the "Square of Croatian rulers." Serbs believe that Croatia's leadership wants to wipe out the memory of the Nazi-backed government of Croatia which murdered tens of thousands of Serbs and Jews during the Second World War.

The memory of the war, coupled with an age-old antipathy between Serbs and Croats, is exploited by Mr Slobodan Milosevic, the President of Serbia who is supporting the Serbs in Croatia.

Serbia has already regained full control over the northern province of Vojvodina and the southern province of Kosovo, which President Tito caused to be carved out of Serbia as a means of containing the republic's political dominance.

But Serbia's control over the provinces has revived latent fears and animosities among Slovenes, Croats and Macedonians about Serbia's long-term intentions. Unlike the Soviet Union, where many of the republics are demanding sovereignty but where Mr Mikhail Gorbachev, the Soviet leader, is attempting to control disintegration by formulating a policy from the centre, the federal authorities in Yugoslavia wield no such power and central authority has broken down.

In addition, Yugoslavia is deeply split between those who want a confederal structure - Slovenia and Croatia - and those who want to retain the federal structures - Serbia and Montenegro.

To complicate matters, the republic of Bosnia- Hercegovina, which elects a new government next month, is divided between Croats, Serbs and Moslems. The co-existence of these ethnic groups is becoming increasingly undermined by the rise of nationalism. The forthcoming election will indicate if Sarajevo, the capital, will again become the focus of international attention as it did 76 years ago.

British Steel exports to Germany rise by 61%

By David Goodhart in Bonn

BRITISH Steel increased its exports into the former West Germany by 61 per cent in the first half of this year, according to Mr Ruprecht Vondran, president of the German Steel Industry Association.

Mr Vondran warned, in an interview with the Handelsblatt newspaper, that German steel makers should pay attention to the British steel "giant" which is not only increasing its exports to Germany but also increasing its presence inside the German market with its acquisition of Kloeckner-Werke's Troisdorf plant.

Mr Vondran said that steel imports into Germany had increased 10 per cent in the first half of this year while exports had fallen by 9.5 per cent.

The absolute quantity of British Steel's exports are still not that large – they have risen from 191,000 tonnes in the first half of 1989 to 306,000 tonnes in the first half of this year – but Mr Vondran said: "British Steel clearly has its eyes on the German market".

He was also critical of the Bonn government for not fighting harder with the EC for better transitional arrangements for the East German steel industry.

He said that transitional arrangements on subsidies and social aid should have been extended for up to two years, as in the case of Spain's EC entry, as opposed to the actual deadline of the middle of next year.

Mr Vondran predicted that more than half of the former East Germany's 80,000 steel workers would lose their jobs.

The east produces about 8m tonnes of rolled steel a year, mainly in the town of Eisenhüttenstadt.

Ministers work on EC foreign policy

By John Wyles in Venice

EUROPEAN Community foreign ministers, forced by the Gulf crisis into an unprecedented degree of military and political co-ordination, began at the weekend to identify elements of a future common foreign policy which might also embrace security issues.

Informal talks near Venice, indicated, however, that the 12 would take only small, limited steps towards the ambitious objectives favoured by Italy and Belgium for transferring much greater competence to the EC on foreign policy and security matters.

Apart from long-standing hesitation from Ireland and Denmark about becoming involved in security discussions, it seems that no other member states are yet ready to move swiftly towards Italy's recommended merger with the EC of the Western European Union, in which nine European countries co-ordinate defence matters.

Long-term objective

Mr Gianni de Michelis, the Italian foreign minister, who hosted the talks, cheerfully admitted yesterday that such a fusion must be a long-term objective.

In preparing for the intergovernmental conference negotiations on political union scheduled for December, the meeting at the weekend served to highlight the considerable uncertainties about the policies which might be transferred to the EC and the procedures which would be adapted to determine them.

France and Britain agreed that governments should still be free to take national foreign policy initiatives, but Mr Roland Dumas revealed that French thinking had arrived at a clearer shape than the British – Mr Hurd said London did not yet have any fixed views on the question of the EC taking some responsibilities for security.

Mr Dumas produced some proposals, previously discussed with his German counterpart, Mr Hans Dietrich Genscher, which would give heads of government in the European Council powers to determine the contents of a common foreign policy "on the basis of common values and interests".

He was ready to allow the use of qualified majority voting when foreign ministers were implementing European Council decisions and also to allow the Commission scope to suggest policy initiatives.

This adds up, none the less, to a far more inter-governmental approach to decision-making than is possible under current EC treaties.

Other governments are less interested than the French in raising the profile of the European Council – Mr Dumas also suggested that a vice-president of the council should be appointed for one or two years, with specific foreign policy responsibilities. He was against for the time being any fusion of the WEU with the EC.

Austrian far-right makes considerable advance

By Judy Dempsey

NEGOTIATIONS on forming a coalition government among Austria's three political parties looks set to begin today, following considerable gains for the far-right Freedom party, substantial losses for the conservative People's Party and success for the Socialist party.

The People's Party, the junior partner in the socialist-led coalition, was last night predicted to have lost around 16 of its 77 seats to Mr Jorg Haider's Freedom Party.

His party, which won 18 seats in the 1986 election, was expected to win 30 seats of the 183-seat parliament after running an election campaign directed against immigrants from eastern Europe.

The Socialist Party is set to hold on to its 80 seats, making it the largest party in parliament, but it will not be enough for it to form a government. Another "grand coalition" between the Socialists and conservatives had been expected. But the People's Party's poor performance means that it will have little say in the allocation of ministries.

It may be thus tempted to form a coalition with the Freedom Party in order to oust the socialists from power. Mr Haider said he would consider such a coalition if he was chosen as Chancellor.

Mr Franz Vranitzky, the chancellor, has repeatedly said he would not form a coalition with the Freedom Party.

The Freedom Party leader has sometimes appeared an extremist in challenging sacred cows such as Austrian neutrality, the country's cultural separateness from Germany, its acceptance of national minorities and its open-door policy towards the East.

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Ex-Klansman draws votes in Louisiana primary

By Peter Riddell, US Editor, in Washington

MR DAVID DUKE, a former leader of the Ku Klux Klan who appeals to racial and economic worries of whites, has performed strongly in the race to become US senator from Louisiana, but failed to force a run-off contest next month.

Mr Duke, running as an unofficial Republican, won a high 44 per cent of the vote.

But incumbent Democratic Senator Bennett Johnston won 54 per cent of the vote and was therefore re-elected to a fourth term, although his margin was less than he hoped in face of the embarrassingly strong showing by Mr Duke.

Under Louisiana's unique electoral law, all candidates of whatever party compete in a first primary and only if one fails to capture more than 50 per cent do the two leading contenders face each other in a run-off.

Mr Johnston might have been forced into such a run-off had not Mr Ben Bagert, the official Republican candidate, withdrawn late on Thursday in a last-minute effort by the party leadership to block Mr Duke, who has ties to white-supremacist and Nazi groups and whose bookshop last year sold pro-Hitler literature.

Mr Duke at first said he would challenge the election in court on the grounds that absentee ballots for Mr Bagert should be included in the total vote.

These votes might have denied Mr Johnston the majority he needs to avoid a run-off. But later Mr Duke dropped the idea of a court challenge. Voter turnout was very heavy; at around 70 per cent it was more than three times the average in other states' primaries.

Some estimates suggested that Mr Duke had captured about 60 per cent of the white vote and Senator Johnston won only by attracting almost all the black vote, around a quarter of registered voters.

Mr Duke has revived memories of former Alabama Governor George Wallace's campaigns of 20 years ago in his appeal to the discontent of ordinary working and unemployed whites. His campaign strategy blamed America's problems of crime, education and drugs on the welfare system and the growing, largely black, under-class.

US union reaches settlement with Ford

THE United Auto Workers union in the US said yesterday that it and Ford Motor had reached a tentative settlement on a new three-year labour contract covering about 100,000 Ford hourly workers, Reuter reports from Dearborn.

Details of the pact were being withheld pending a meeting tomorrow of union leaders from around the US, who must approve the pact before it is put before union rank-and-file members for ratification.

The UAW indicated that the pact with Ford closely mirrored the labour contract it recently reached with General Motors.

The GM contract, which was ratified by union members last week, features wage increases and improved pension benefits.

It also established a multi-billion dollar fund to provide job and income security for workers.

Once the UAW-Ford pact is ratified, the union will move to Chrysler, the number three American car maker, to negotiate a separate labour agreement.

Venezuela stands by economic reforms

By Joe Mann in Caracas

MR Carlos Andres Perez, Venezuela's president, said that his government would not alter its unpopular economic reform programme even though the country's oil export revenues have increased substantially this year due to the Gulf crisis.

Venezuela's national oil company, PDVSA, now estimates that 1990 petroleum export revenues will reach $12.13bn – up $1.8bn or 17 per cent – from projections made earlier this year. The new oil revenues should cover most of the government's fiscal deficit this year.

The jump in oil revenues provoked speculation that the government might delay or scrap economic reforms and turn to the unbridled spending schemes that characterised previous administrations. Mr Perez last year initiated a series of tough economic adjustment measures that have produced a sharp contraction in the economy and strong criticism from labour and the political opposition.

Soon after some reforms were announced last year, Venezuela was struck by rioting which left about 300 dead.

The Walesa legend faces a tough test as Solidarity leader seeks reins of power

Christopher Bobinksi looks at Poland's divisive presidential election

POLAND'S presidential election on November 25 promises to be an exciting test of Mr Lech Walesa's claim on the country's leadership, now that his once close ally and adviser, Mr Tadeusz Mazowiecki, the prime minister, has decided to stand.

In the past the polls have shown Mr Mazowiecki ahead of the Solidarity leader, but now the gauntlets are down both are enjoying more or less equal popular support. Both come from the Solidarity camp and many people are having difficulty distinguishing policy differences.

Indeed, what may decide in the end is whether Poles will choose to identify with Mr Walesa, the charismatic shop floor electrician famed for besting communism, or Mr Mazowiecki, the intellectual who lacks his rival's common touch but better embodies the conventional image of a politician.

Warsaw taxi drivers are inclined to ask: "Shouldn't our president have a little more schooling ?" – adding that Mr Walesa (who left school for work at 15) should stay where he is now, heading a trade union.

But there are powerful forces backing the Solidarity leader. Ten months into the government's IMF-backed austerity programme Mr Walesa is promising to do something about rising unemployment and low incomes.

He also identifies with the provinces, ever resentful of Warsaw's dominance over the national life.

In addition, Mr Walesa is attracting the support of those activists who failed to win places in the administration as a result of Solidarity coming to power last year.

These people are especially attuned to his promise that he will "accelerate" the replacement of former communist appointed cadres, whom Mr Mazowiecki has kept in place, partly as a result of his moderate approach and partly through a shortage of experienced administrators with the right opposition background.

Mr Mazowiecki will have to run a campaign on the strength of his government's chequered record, without being able to make a direct attack on Mr Walesa, the repository of the Solidarity myth.

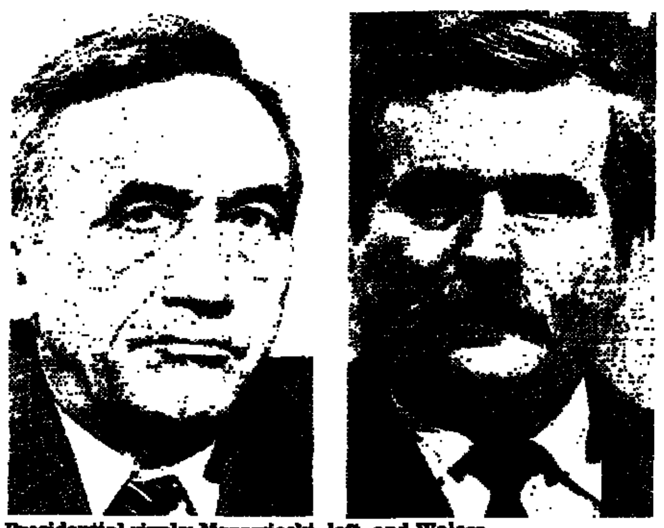
After all, Mr Mazowiecki was Mr Walesa's adviser for ten years and it was Mr Walesa who suggested that Mr Mazowiecki head the Warsaw Pact's first non-communist government, against the latter's very real misgivings.

The communist *ancien regime* establishment, afraid of fierce purges under Mr Walesa, favours Mr Mazowiecki.

He is also backed by the opposition establishment now in power – many of them dissenters from the Communist party – who despite the fact that the policies his government is pursuing are right-wing, are still vulnerable to a charge coming from the pro-Walesa populist right of "closet leftism".

On the other hand the politically influential Roman Catholic church, which would probably be happier with the loyal and predictable Mr Mazowiecki, has yet to signal its preference.

Indeed, it may choose not to back anyone openly, thus effectively injuring Mr Walesa's chances.



Presidential rivals: Mazowiecki, left, and Walesa

A cautionary tale of tax in the Reagan years

By Nancy Dunne in Washington

AS RONALD Reagan explained it, the 1981 Economic Recovery Tax Act would unleash the creative energies of entrepreneurs who would create new jobs for everyone else. As it turned out, the policy ignited a building binge which ended with half the country's savings and loans bankrupt, a 20 per cent oversupply of commercial property and an enormous backlog of unsold new homes.

The legislation also helped create 1m new millionaires, according to Kevin Phillips's controversial new book, *Politics of Rich and Poor*, which details the concentration of US wealth in the hands of 1 per cent of the population during the 1980s.

Mr Jim Kelly, a perspicuous, ambitious Easterner who was broke at the start of the decade, was one of the fortunate ones. He, and other high wage earners like him, benefited mightily from the three-year 25 per cent cut in federal income taxes.

An expensive divorce had left him with no usable assets in 1980. But Mr Kelly, the son of a New Jersey postman who had gone through college on a scholarship, had begun the traditional climb through corporate ranks. With a hefty salary and no taste for flashy living, he was perfectly placed to invest his considerable surplus cash in property when the Republican Administration came to power in 1981.

Tax write-offs were so generous that for seven years Mr Kelly, with complete legitimacy, paid little federal income tax. For four years he paid none at all.

As a salesman of high-tech equipment, Mr Kelly had saved $50,000 by 1982. That was when he decided to treat himself to a $75,000 "penthouse" condominium in a Maryland suburb.

The US was in a recession at the time, and the banks were hungry for borrowers, requiring only 10 per cent deposits on property.

At his estate agent's urging, Mr Kelly bought three flats – living in one and renting two others at a loss to reduce his tax burden. Condominiums were ideal for his purpose. Exteriors are well maintained through the payment of special, tax deductible, fees and he did most of the indoor repairs himself.

The tax code permitted him to "accelerate" the cost of property depreciation and to write off interest payments.

In 1983 Mr Kelly added two more small Maryland flats to his portfolio. He branched out the next year to buy two more in the thriving New York metropolitan area and added four condominiums to his holdings in 1986. "The banks were having a ball," he says. "I was paying no tax, but I was providing homes for people with cheap rents during a low-income housing crisis."

Mr Kelly was also having fun. Although he worked 15-hour days, drove a delapidated 1972 Datsun and dined out only rarely, he wiled away many pleasant hours charting investment strategies.

Then came 1985 and "a bit of a crisis." He lost his job and went for six weeks without a salary. His yearly income dipped to $93,400 and he began to have cash flow problems.

It was a time of nail-biting tension. He moved to a tiny, rented flat and spent every cent he could save to keep his investments going.

Then the banks came to the rescue with offers of refinancing if he would switch from a fixed rate of 12 per cent to what, in the US, were new adjustable-rate mortgages, starting at 8 per cent. Interest rates plunged later that year and, instead of bounding up to double-digit levels, settled at around 9 per cent.

"During all this time, the Government was leading me along by the nose," he says. "But what Reagan gaveth, Reagan could taketh away."

His property buying came to an end with the 1986 tax reform, which levelled the tax brackets to 33 per cent, 28 per cent and 15 per cent. It also phased out mortgage deductions on all but two homes.

Very gradually, Mr Kelly began moving to the 28 per cent tax bracket reserved for the middle class and wealthy.

Meanwhile, he began to try other investments. He did well by trading bonds, but his forays on Wall Street became a lesson in the futility of small traders trying to make big bucks on the stock market.

By 1987 property inflation, boosted by the demand of other speculators, had raised the value of his assets to more than $1m. His debt was $750,000. Ultimately, he was saved the fate of so many of the speculators, now crowding the US bankruptcy courts, by an ingrained cynicism that told him "the party" would one day end. As his mortgages became less of a tax advantage, he began selling off some and paying off others from his earnings and rental receipts.

"My plan couldn't work if I couldn't rent my places or sell them," he says. But the small flats he had purchased were attractive to workers and young couples.

Mr Kelly, now with an estimated net worth of $1.05m, has moved to California where property values are turning down. Typically, he is living in a rented house, hoping to catch a bottoming-out market next year, when he will be forced to reinvest some of his profits.

"If I buy at the bottom, and the California real estate party gets going again, I take in some heavy-duty dollars," he says. "Then I can go back to the east and pick up a palace."

On the other hand, if the economy slumps and he is unable to sell his real estate, "I'll end up as a bagman on the grates."

Tax rates, earnings of a high technology salesman

Year	Gross Earnings	Income Tax Rate %
1981	82,200	24.3
1982	123,700	7.1
1983	111,700	0
1984	100,000	0
1985	93,400	0
1986	117,000	0
1987	107,000	3.69
1988	131,000	10.00
1989	189,000	20.36

INTERNATIONAL NEWS

Police station comes under siege in protests against gangster links

Osaka labourers stage fifth day of riots

By **Robert Thomson** in Osaka

MORE than 1,500 rampaging workers in Osaka set fire to cars, hurled stones and bottles and tried to lay siege to a police station yesterday, in the fifth consecutive day of riots in Japan's second city.

Some 2,600 riot troops used batons and water cannons to defend the police station, which has become a target of popular outrage over links between police and Japan's powerful *yakuza* or gangsters.

The protests – Japan's worst labour violence in 20 years – began last Tuesday after a police confession that a Nishinari policeman had taken bribes from local gangsters, who have a monopoly on the recruitment of workers for low-paid day labour.

Armed with bottles, lumps of wood, and a deep sense of indignation, the down-and-out day labourers of Osaka fought police in streets littered with the broken glass and gutted cars of previous battles.

For the past week, hundreds of destitute workers have surrounded and attacked the Nishinari police station in the $5-a-night flophouse district that is the traditional home of the marginal men and women of the city.

The claim that a senior officer took bribes inspired the uprising, but the causes are deeply rooted in the uneasy relationship between Osaka's outcast groups and the police as representatives of the affluent society that has left them behind.

Last night, the three-storey police station was again a beacon for Japanese who have failed to fit the middle-class mould. The angry crowd included protesters from the radical right wing, the far left, out-of-town toughs and the gangster groups which thrive in the seedy sub-culture of the run-down area.

About 200 people have been injured in the clashes and 80 or so have been arrested.

Police had hoped that a promise to prosecute the officer, who was in charge of anti-gangster activities and allegedly received Y3.3m (£12,700) in bribes, would ease the tension, but the protesters have gathered each night in front of the damaged police station.

Ordinary Japanese avoid the area and try to ignore the inhabitants, who wear the traditional billowing trousers of construction workers and rise each morning at around 5am to muster for jobs on sites around the city.

About 30,000 labourers live in the flophouses. They are mostly single men in their 50s, poorly educated, possibly alcoholic and generally in poor health – the local incidence of tuberculosis is 35 times the national average.

The workers are linked to the gangster groups who help organise the labour gangs, and have been adopted as a cause by left-wing radicals.

A 56-year-old labourer said last night that the police had betrayed the workers by taking money from the gangsters. He has lived in the area for seven years and indicated that there was generally a very delicate balance among the different outcast groups.

There is also deep distrust of the police, who erected video cameras in Nishinari's streets last May and who have begun a crackdown on the *yakuza*. Apart from one of their own officers, the police have begun random raids on the 45 *yakuza* offices in the area.

They are hoping that the protests will end today with the start of the new work week for the labourers, but late last night the station was still surrounded.

Burnt-out vehicles in the streets of Osaka after five days of rioting

WORLD ECONOMIC INDICATORS

TRADE STATISTICS

		Aug.'90	July '90	June '90	Aug.'89
UK (£bn)	exports	8.637	8.254	8.636	7.558
	imports	9.765	9.934	10.157	10.000
	balance	−1.128	−1.680	−1.565	−2.442
France (FFrbn)	exports	98.378	96.169	98.721	94.995
	imports	103.721	101.244	99.747	101.350
	balance	−5.3431	−5.075	−1.026	−6.355
Japan (US$bn)	exports	23.458	22.726	22.770	22.868
	imports	17.446	17.811	16.389	16.351
	balance	+6.012	+4.915	+6.381	+6.517
		July '90	June '90	May '90	July '89
US ($bn)	exports	32.026	34.221	32.774	29.903
	imports	41.357	39.560	40.543	38.984
	balance	−9.330	−5.339	−7.769	−9.081
W. Germany (DMbn)	exports	54.20	52.10	52.70	54.00
	imports	45.90	43.50	42.40	42.60
	balance	+8.30	+8.70	+10.30	+11.40

Hope for hostages in Lebanon

By **Lara Marlowe** in West Beirut

IN A radical departure from past demands by Lebanese hostage-takers, Sheikh Mohammed Hussein Fadlallah, the spiritual leader of the pro-Iranian Lebanese Hizbollah movement, has said the release of western hostages in Lebanon no longer depends on the fate of Moslems held in the Israeli-run prison at Khiam, southern Lebanon, nor is it linked to the safety of 15 Shia Moslems who are believed to have escaped from prison in Kuwait.

Sheikh Fadlallah's remarks seemed calculated to prepare the way for the release of a British hostage. Two of Beirut's leading newspapers predicted at the weekend that Mr Terry Waite, the Archbishop of Canterbury's envoy who disappeared in Beirut in January 1987, was about to be freed.

Sheikh Fadlallah predicted "a happy outcome" to the hostage saga due to "the change in the political atmosphere in the region". His remarks follow Iran's restoration of relations with Britain on September 27.

Most of the 12 westerners still held in Lebanon are believed to have been abducted by the Hizbollah, over whom the pro-Iranian sheikh wields considerable influence.

In addition to Mr Waite, two other Britons are held hostage in Lebanon. They are Mr John McCarthy, the television journalist, and Mr Jackie Mann, a retired airline pilot.

The newspaper reports said economic and other agreements had been concluded, in exchange for a September 30 television appearance by the British author Salman Rushdie in which Mr Rushdie apologised for offence caused by his novel The Satanic Verses.

The Khiam prisoners, who are held without trial, are, like the western hostages, a "humanitarian problem", according to Sheikh Fadlallah.

But for the first time he rejected direct linkage between the two issues.

"We call on every side to dissociate these two problems from each other," he said. "All sides, Iran and all parties capable of doing something, can put pressure to end this tragedy in such a manner as to avoid giving the impression that this was done to make a trade – that one side has blackmailed the other into doing something it did not want to do."

Freedom for 15 Shia Moslems jailed in Kuwait for the 1983 bombings of the French and US embassies there has also been a consistent demand of Lebanese hostage-takers.

Sheikh Fadlallah said that he had heard reports of their escape following Iraq's invasion of Kuwait, but that the liberation of western hostages in Lebanon was now "more a question of the overall political situation than of individuals."

Kerry Packer has heart attack

By **Kevin Brown** in Sydney

MR Kerry Packer, widely regarded as Australia's richest man, was seriously ill in hospital last night after suffering a heart attack while playing polo.

Spectators at Sydney's Warwick farm polo ground said Mr Packer, 52, was helped from his horse after suffering discomfort. He was unconscious when ambulancemen arrived but was revived before being taken to hospital.

Mr Packer's illness follows the death last month of Mr Robert Holmes à Court, another leading Australian entrepreneur, who collapsed at his stud farm outside Perth.

Consolidated Press Holdings (CPH), Mr Packer's privately-owned master company, controls a large number of Australian magazines, the top-rated Channel Nine television network, most of the Australian chemical businesses formerly owned by Monsanto, and a profitable US publisher of newspaper inserts.

Mr Packer also owns 48 per cent of Australian National Industries, a major heavy engineering group, and significant property interests, including some large cattle stations. The magazine Australian Business recently estimated his personal wealth at A$2.1bn (£91m).

His biggest coup was the purchase for A$200m this year of the Channel Nine television network, which he had sold for more than A$1bn three years earlier to Mr Alan Bond, the former chairman of Bond Corporation.

Packer: said to be richest Australian

Gulf Arabs take tough line in reassessing their friendships

Victor Mallet on a new direction in post-invasion foreign policy

WHEN Mr Nayef Hawatmeh, the leftist Palestinian leader, shouted "Let the sheikhs and emirs go to hell!" at a pro-Iraqi conference in Jordan last month, he must have known his feelings were more than reciprocated by the conservative Gulf rulers he was abusing.

After years of avoiding the international limelight, the Gulf states have reacted to the Iraqi invasion of Kuwait by adopting an increasingly assertive foreign policy. They are retaliating against their political enemies in the Arab world instead of placating them or buying them off. The most colourful example of the new direction taken by the Gulf states was the bitter personal attack on King Hussein of Jordan by Prince Vandar bin Sultan, the Saudi ambassador to Washington.

In an open letter to the king published in the Washington Post and reprinted in Gulf newspapers, Prince Vandar mocked Jordan's friendship with Iran and King Hussein's failure to achieve anything from the Palestinians. "You say the Kuwait-Iraq border is disputed and based on an intolerable record created by the colonial British," Prince Vandar wrote.

"Your Majesty, you should be the last one to say that. Not only all your borders, but your whole country was created by the same colonial British."

The Gulf's ruling families – particularly those of Saudia Arabia and Kuwait – are the most generous donors to Arab and Islamic causes. They have belatedly said that all the money they gave to the Palestine Liberation Organisation, to countries such as Jordan and Yemen, and to Islamic fundamentalist groups has earned them more envy than gratitude.

Iraq's invasion of Kuwait has also exposed to public view how much the thinly populated Gulf states depend on the west for protection against Iraq or Iran. They therefore have little to lose in mounting a robust defence of their conservative political views.

"For the last 30 years we have been receiving advice from liberal 'progressive' Arabs," says one senior official in Bahrain. "They have built an inner guilt in us, telling us we are bedouin or sailors and do not deserve our wealth. They accused us of being feudal, of being stooges of the British.

"We behave with a bit of grace and understanding, but now we are punching back very, very hard."

Saudi Arabia, the dominant Arab Gulf state, had already begun to take a more prominent role in Arab diplomacy before the Gulf crisis, and last year it invested considerable effort in trying to broker a peace plan for Lebanon. But the Iraqi invasion has prompted Saudi Arabia and its five allies in the Gulf Co-operation Council (GCC) to wield their stick and carrot with more vigour than ever.

Egypt, which has contributed troops to the multinational forces in Saudia Arabia, is getting its reward in cash. Iraq, whose war against Iran was partly funded by Saudi Arabia and Kuwait, has now been utterly condemned. Jordan, Yemen and the PLO are being cold-shouldered by their former Gulf paymasters for being sympathetic towards Iraq.

Qatar has thrown out a number of Palestinians. Saudia Arabia has expelled all but a handful of Iraqi, Jordanian and Yemeni diplomats, cut off oil supplies to Jordan and launched a vociferous press campaign to undermine the Yemeni government by promoting the exiled royal family and sowing divisions between the newly united northern and southern parts of the country.

Saudi Arabia is also suspected of trying to destabilise Yemen and Jordan by financing rebellious tribal leaders just beyond their frontiers, a traditional sort of diplomatic warfare on the Arabian peninsula.

Thousands of the estimated 1m Yemenis in Saudia Arabia are streaming home across the border in trucks and cars piled high with their belongings, after the introduction of regulations requiring them to have entry visas and Saudi sponsors if they want to live or do business in the kingdom.

Yemenis were previously exempt.

Gulf leaders say they still support the Palestinian cause, but they do not hide their desire to see Mr Yassir Arafat ousted from the leadership of the PLO. Nor has Sheikh Zayed bin Sultan al-Nahyan, the ruler of Abu Dhabi and president of the UAE, been heard to repeat his previous warning that the US was the worst enemy of the Arabs after Israel.

Many Palestinians in the Gulf, now viewed with suspicion because of Mr Arafat's friendship with President Saddam Hussain and reports of Palestinian collaboration with the Iraqi forces in Kuwait, are appalled by the impact of the Gulf crisis. They speak of relatives coming to the Gulf from the heady pro-Saddam atmosphere of Jordan and slowly realising the financial and political implications of the anger felt by Gulf Arabs towards the PLO.

Not all the Gulf's post-invasion foreign policy initiatives are negative. Distrust of Iraq and its friends is accompanied by a renewed desire to reinforce ties with oil-consuming nations in Asia and with the permanent members of the UN Security Council. Hence the recent establishment of diplomatic ties with the Soviet Union by Saudi Arabia and Bahrain.

Gulf rulers also recognise the need to strengthen the GCC alliance and to make peace with Iran – the natural regional counterweight to Iraq. "There is a requirement for some kind of security arrangement for the whole region," says Sheikh Ali Khalifa al-Sabah, the Kuwaiti finance minister in exile.

NEWS IN BRIEF

India plans austerity measures

INDIA'S Finance Ministry is drawing up austerity measures before an anticipated decision by the government to seek a substantial loan from the International Monetary Fund, David Housego reports from New Delhi.

The inevitability of an application to the Fund emerged over the weekend after Moody's, the US credit rating agency, downgraded India's rating by two grades, from A2 to BAA1. Moody's defines the new rating as that of a country "certain to repay interest and principal" but undergoing economic difficulties.

On the basis of estimates by the World Bank and commercial bankers, India needs a further $4-5bn this year to complete the financing of an expected current account deficit of $10bn (£5.3bn) or more.

'200 Moslems killed in villages'

Fears that Hindu-Moslem violence in northern India could worsen over the coming weeks deepened yesterday, as details emerged of the killing of as many as 200 Moslems in villages in Gonda district in Uttar Pradesh, writes David Housego in New Delhi.

Official accounts put the death toll at 37.

Egypt raises oil price $1 a barrel

Non-OPEC Egypt raised its oil prices by $1 a barrel yesterday to reflect higher international market rates, an Egyptian oil official said, Reuter reports fro Cairo. The top Zeit and Ras Bahar blends were now quoted at $36.30 a barrel and the benchmark Suez blend at $36.

Jordan in moves to save energy

Jordan, its economy ravaged by the Gulf crisis and a sharp drop in oil supplies, has announced emergency energy-saving measures and cut the official working week, Reuter reports from Amman.

Under the measures, aimed at slashing an oil bill which topped $400m in 1989, all commercial establishments will close at 7pm and entertainment facilities at 1pm.

Israel hands out first gas masks

Israel yesterday started a planned nationwide distribution of 4.7m gas masks, as Prime Minister Yitzhak Shamir reiterated that the Jewish state had no intention of launching a pre-emptive attack against Iraq, writes Judy Maltz in Jerusalem.

Rwanda rebel suspects arrested

Government forces have arrested hundreds of suspected rebel sympathisers since fighting erupted in Rwanda's capital, Kigali, on Thursday night, residents said yesterday, Reuter reports from Kigali.

Residents said the capital had been quiet for several hours.

State-owned industries come under closer scrutiny

France is unruffled by recent British and EC moves, write **William Dawkins** and **Charles Leadbeater**

AS 1992 approaches, Europe's nationalised industries are coming under the spotlight. Nowhere does it shine more brightly than on France, with one of the largest state sectors in the European Community and a stalwart defender of the principle of public ownership.

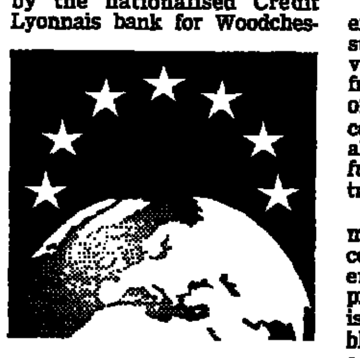
Two recent developments have conspired to thrust the issue into greater prominence:

● A tougher line from Brussels, which is keen to prevent the single market from being distorted by unfair subsidies. After a long and bitter battle, the European Commission recently compelled France's nationalised Renault car group to repay several billion francs of government aid.

Sir Leon Brittan, the competition commissioner, plans to tighten controls on financing of state industries by requiring them to open their accounts to more searching EC scrutiny.

● The British government's decision, when referring bids to the Monopolies and Mergers Commission (MMC), to pay close attention to state-controlled bidders, on the grounds that it wants to avoid "nationalisation by the back door."

Though the government has not said so publicly, it is believed to have French state-owned companies particularly in mind. Last month, the Department of Trade and Industry referred to the MMC the proposed merger of the missile businesses of Thomson-CSF, the state-owned defence electronics group and British Aerospace, and the bid by the nationalised Crédit Lyonnais bank for Woodchester, an Irish leasing group.



THE EUROPEAN MARKET

French officials claim to be unruffled by developments. With the Renault affair settled, they take a relaxed view of Commission plans to monitor state industry finances more closely. "We have had frank explanations with Brussels recently. We think we are beginning to understand each other better," says an industry ministry adviser.

The official French line is that the British government has every right to vet mergers through the normal competition procedures. "We don't want to throw oil on a fire which should never have been started," says a French official.

However, some surprise is expressed in Paris at the DTI's stance on state ownership, viewed as a marked departure from Britain's previous policy of judging mergers purely on competition criteria. It seems all the odder given Britain's fulminations at other EC countries' takeover barriers.

The British government maintains there is an intimate connection between state ownership and anti-competitive practices. It says its new policy is not meant to be a short-term block on the rash of French acquisitions.

DTI officials stress that by no means all state-owned bidders will be referred to the MMC, which will be called on to examine whether state ownership also involves state control.

One British fear is that state companies can pass on subsidies in the form of discriminatory pricing, propping up uncompetitive businesses and distorting competition. There is concern, too, that takeovers could be used to continue protectionist policies after 1992. The free-market Adam Smith Institute argues that state-owned groups would be biased towards suppliers of their own nationality. Furthermore, since state-owned companies are bid-proof, their targets have no chance to strike back.

Finally, British ministers cite strategic considerations which would justify blocking a foreign state acquiring a stake in defence or oil interests. They say this shows the policy is not directed at the French, but has a global reach. The concern over the Kuwait Investment Office's acquisition of a stake in British Petroleum two years ago was reawakened recently, after companies controlled by the Iraqi government acquired a network of companies producing products with military applications.

French officials respond that government generosity to the public sector is limited by national budget constraints as well as EC rules. Many state-owned companies, indeed, complain bitterly about the government's meanness. Because they are restricted from raising capital by issuing equity to private investors, some are far more in debt than their private sector competitors.

Renault, admittedly, has benefited from a huge government debt write off, the cause of the row with Sir Leon. Yet it remains the most indebted car maker in the world. Rhône-Poulenc in chemicals and Usinor-Sacilor in steel are others which have had to adjust their plans to cope with the constraints on their state shareholder.

French state companies also claim to be run independently of their government shareholder, and their financial accounts are sometimes more informative than those of private sector counterparts.

As for accessibility to takeovers, French officials point out France and Britain are Europe's most open countries, a claim supported by a study by accountants Peat Marwick. Foreign companies spent FFr171.6bn on acquisitions in France last year, against FFr100.7bn spent by French companies abroad, according to the Paris-based magazine, Fusions & Acquisitions.

So what, then, is the rationale for continued state ownership? French Industry Ministry advisers claim it is to guarantee an enduring French presence in strategically important industries like cars, steel, oil chemicals and electronics. It helps to have an owner who does not demand increased earnings every quarter, something which French officials see as a weakness of private Anglo-Saxon industries.

French officials also like to point out that the Rome Treaty explicitly recognises the principle of public ownership and obliges EC authorities to treat state- and privately-owned companies on the same basis.

However, suspicions continue to linger in both Brussels and London that similar even-handedness is not exercised by many governments in their sometimes opaque dealings with their nationalised sectors. How far that is true is what the stricter disclosure requirements planned by Sir Leon Brittan are designed to elicit.

BRITAIN AND THE EMS

JOHN MAJOR

Chancellor's first big political gamble

THERE are now two paths open to Mr John Major.

One leads just a few feet through the chancellor's connecting door to 10 Downing Street. The other is the more well-trodden route to political obscurity in the ranks of former future prime ministers.

Amid the weekend euphoria that followed his decision to take sterling into the EMS exchange-rate mechanism, the judgment of most of his colleagues was that Mr Major had already taken two of the three steps along the former.

At a stroke he lifted the gloom that threatened to engulf the Conservative Party conference, demonstrated that a beleaguered government could still grasp the initiative, and ended the most debilitating internal row of its 11 years in office. "I was starting to feel that we were plodding over the mud at Passchendaele. We had forgotten how the government could take the initiative," one colleague said.

Rivals for the eventual succession to Mrs Margaret Thatcher have been gracious enough to admit that Mr Major now wears the mantle of heir-apparent. The chancellor had demonstrated also that if he were the prime minister's chosen successor, he had enough political grit to stand up to her and win.

"It was a great triumph . . . he has killed the idea that he is Thatcher's poodle," was a comment offered by one minister and echoed by several.

In spite of his calculatingly grey demeanour, Mr Major will undoubtedly enjoy the plaudits this week in Bournemouth. But he is level-headed enough to be aware also that "golden scenarios" frequently turn out to consist of foil-coated lead.

A man who until Friday ran the risk of combining as chancellor the apparently contradictory sobriquets of "the most political member of the Cabinet" and "a master of indecision" now has to deliver what the ERM is meant to promise – victory at the general election due by mid 1992. If he does not, the Conservative Party will look to someone else who it thinks can win – probably to Mr Michael Heseltine.

Recent history shows how ruthless it can be. Although never a contender for the leadership, Mr Nigel Lawson was hailed as the greatest Conservative chancellor for a century. Now he is the scapegoat for everything that has gone wrong.

Astute politician that he is, Mr Major spent much of the weekend seeking to play down the expectations that he had generated. There were no clear-cut implications for the date of the election; the EMS would not be the cloak or excuse for a pre-election boom; inflation would not disappear overnight.

More sober colleagues agree with him. "It just doesn't deliver the promised land painlessly," one said. "Nothing does." Others have realised that the government is promising a long period of below-average economic growth until industry adjusts to the new exchange-rate discipline. In France that interval lasted five years.

Mr Major's difficulty is that the great majority of his colleagues hope the ERM will be the "panacea" he insists it is not. The pressures from Mrs Thatcher and Tory MPs at Westminster will be intense. The prime minister after all was manoeuvered into the ERM not because she was persuaded that it has any intrinsic merits. Mr Major told her that staying outside might cost her the election.

The chancellor has a well deserved reputation at Westminster as an honest as well as supremely skilful politician. So there is no reason to doubt his sincerity when he emphasises that ERM entry is not designed as a precursor to an irresponsible 4 or 5-point cut in mortgage rates, followed by a dash to the polls next June.

In private as well as public conversations, Mr Major remains adamant that the central objective must be to tackle inflation. He believes that the electorate is too smart to fall for a pre-election party promising another crushing hangover.

His upbringing in distinctly modest surroundings in south London has left him also with deep-seated conviction that inflation is a social as well as an economic evil – its takes its toll first and foremost of the less affluent.

For all the disclaimers, however, Mr Major is well aware of how politics intrudes upon economics.

At the start of this year, the Treasury establishment wanted him to push interest rates still higher. He declined, arguing that the parlous state of the Conservative Party might make a further tightening of the screw counterproductive.

If the fiscal stance in this year's Budget won the approval of the Treasury's economists, the detailed content was unashamedly political. Mr Major decided to play to the Tory back benches and to ordinary voters rather than to the City pundits. Yesterday he made clear that, paramount though it was, the defeat of inflation would not take precedence over the government's social obligations in this year's public-spending round.

He will face other pressures also. Mrs Thatcher has backed down on the ERM but, as Sir Leon Brittan said yesterday, the government has to do still more if it is to be taken seriously in negotiations on Economic and Monetary Union (Emu). The chancellor must now persuade the prime minister to admit the possibility of a single European currency.

Mr Major, as the Conservative leader-in-waiting, also will have to tell his own party and the electorate a lot more about just what he stands for.

His meteoric climb since being "spotted" by Mrs Thatcher during the 1987 election campaign when he was a junior social security minister owes much to his determination not to be pigeonholed. Thatcherites claim him as "one of us". So, too, do the supporters of one-nation Toryism.

The chancellor himself once remarked: "I prefer to set out the things I believe in in concrete terms rather than in some quasi-visionary way". Since then, he has provided a few clues.

He is not an instinctive European like some of his more patrician colleagues. But he has a far more deep-rooted concern than most for the less affluent.

He is liberal on some issues, narrow-minded on others.

Next year's Budget will set more of a manifesto designed to build the image of a Conservatism more attuned to the aspirations of the John Major who left school at 16.

Whether it has much relevance will depend on the outcome of his first serious gamble in politics.

Philip Stephens

BUNDESBANK

Stiff conditions for next move to monetary union

THE GERMAN Bundesbank has begun drawing up a blueprint for the second stage of European Monetary Union to challenge the plan of Mr John Major, the UK chancellor of the exchequer, based on a parallel currency known as the hard Ecu.

A paper entitled "Compromise proposal for the second stage of Emu" has been circulated among European central banks and proposes that the transition from the present stage of Emu to stage two should take place on January 1 1994, provided certain stiff conditions are met.

The paper, which so far is neither official Bundesbank nor German policy, develops a plan for the second stage of Emu that was put forward by the Dutch central bank a month ago.

Although still an unofficial document, it is significant because it indicates that the Bundesbank is softening its previous hard line that stage two should be defined only when an EC treaty has been agreed which establishes how the final stage of Emu will look.

Mr Major's plan for an evolutionary approach to Emu and a later Spanish proposal that would make use of the hard Ecu in the course of phase two appear to have pushed the Bundesbank into considering earlier action.

The specific proposals for stage two are sketchy. The Bundesbank paper proposes a strengthening of the multilateral surveillance procedure by which EC member states exert peer-group pressure on one another to pursue sound economic policies.

It says convergence of anti-inflation policy "could be fostered by a hardening of the Ecu", but gives no details of what that might entail.

The paper adopts a Dutch suggestion that the EC Committee of Central Bank Governors, which the Bundesbank president Mr Karl Otto Pöhl has likened to an embryonic European central bank, could be transformed into a Council of Governors. That would create a body with a legal personality, unlike the present governors' committee.

Towards the end of stage two, the council of EC economics and finance ministers would decide to start the third and final stage of monetary union within a short period of time. That would involve a unanimous decision by member countries to set up a European Central Bank (ECB).

The Bundesbank working paper sets some tough conditions for transition to stage two and for the later move from stage two to three.

To move to stage two:

- The EC must have created its planned single EC market, including the elimination of border controls, so that there can be free movement of persons, goods, services and capital among the 12 member countries.
- All member states' currencies must be in the narrow band of the European exchange-rate mechanism.
- The treaties on Emu, to be agreed by the EC Intergovernmental Conference, which starts in December, must be ratified by all.
- Monetary and compulsory financing of public deficits is to be banned in all member states.
- The national laws of all member states must provide that central bank governors are not subject to instructions or recall.
- The convergence of anti-inflation policy among all EC member states taking part in Emu must have "progressed substantially".

Similarly tough conditions would dictate the move to stage three.

Inflation would have been "very largely eliminated" in all EC countries with price differences "virtually stamped out". Budget deficits in all countries would have been reduced to levels that are "unproblematic in terms of anti-inflation policy".

The process of convergence would have to be accepted by the markets in the form of a virtual harmonisation of capital market rates.

National legislation would have to be changed to make national central banks politically independent and to allow the ECB to function.

The plan would enable countries not participating in monetary union from the beginning to join after a transitional period.

The Dutch central bank originally proposed moving to stage two at the beginning of 1994 so that the political momentum towards Emu would be maintained.

The Bundesbank paper is understood to be the work of Mr Hans Tietmeyer, the director in charge of the bank's foreign relations, and has yet to be approved by Mr Pöhl, the bank council or the government in Bonn.

Peter Norman

HOUSING

Cuts in mortgage rates expected

MANY of Britain's biggest building societies are likely to cut their mortgage rates over the next few days, easing the downturn in the housing market and giving some relief to Britain's hard-pressed building industry.

Woolwich, Britain's third-biggest building society, said yesterday it would cut its mortgage rate of 15.35 per cent by up to 1 percentage point this week. The cut, to take effect on November 1 for new and existing borrowers, is likely to be announced on Wednesday, Mr David Blake, the society's assistant general manager, said another cut was likely later in the year.

A reduction in mortgage lending rates, which have been at record levels since March, is likely to lift the fortunes of Britain's construction industry, which has suffered from a widespread slowdown in house building, particularly in southern England.

Mr Kenneth Bell, chairman of Bellway, one of Britain's biggest house builders, said the decision to cut interest rates was "a tonic" for an industry that had taken a battering.

The decision by Woolwich on its mortgage rate follows Friday's decision by Nationwide Anglia, the second-biggest society, to cut its rate by 0.9 percentage points, from 15.4 per cent to 14.5 per cent, also from November 1.

Halifax, the largest UK mortgage lender, also intends to reduce its rate. The society will decide on the size of the cut in the next few days.

Other building societies said yesterday they were likely to cut their rates this week. Bradford & Bingley, the eighth-biggest building society, said the rate cut would be "a step in the right direction" for borrowers.

Peter Marsh

PARIS

Mitterrand urges unity

BRITAIN'S ERM entry has coincided with pressure from President François Mitterrand of France for a centralised European economic and political decision-making body.

"An economic government of Europe" was the logical and vital next step from economic and monetary union, Mr Mitterrand told a conference organised by the Franco-German European Convention in Paris at the weekend.

European union would be destined to failure without "unified political decision-making".

"A single European currency and central bank would have no "reality unless they express a policy", said Mr Mitterrand. "There must be an economic government of Europe," otherwise European union would never be reliable.

William Dawkins

SPAIN

Madrid is no longer alone in trouble

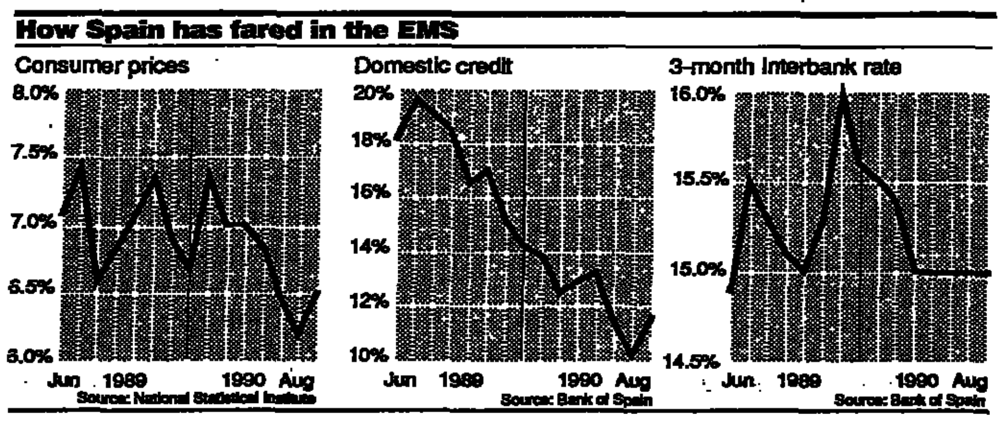
NO ONE will be happier to see Mr John Major, the UK chancellor, at the European Community finance ministers' meeting in Luxembourg today than Mr Carlos Solchaga, his Spanish counterpart.

Spain has been out on a political limb since Mr Solchaga proposed last month that the European Monetary Union (Emu) schedule planned by the Commission president, Mr Jacques Delors, be slowed down. Britain's entry into the exchange-rate mechanism of the EMS means that finally Madrid has almost certain political backing for a one-year delay to the start of phase two of the Delors schedule, until 1994.

Spain, an ardent supporter of the faster Delors programme when it joined the ERM in June 1989, is in the middle of its effort to "converge" its inflation and interest rates to West German and French levels. Mr Solchaga has blown hot and cold about the effects of the Gulf crisis, but his suggested delay to phase two marked an unmistakeable change of heart, if not about Emu itself, then at least about how quickly Spain can converge. In spite of calls from Mr Delors for the prime minister to intervene, early convergence is simply on longer on the table.

Even before the Gulf crisis, the warning signs were there. This year's current-account deficit was going to rise some 70 per cent to around $15bn (£8.2m) as tourist income fell 10 per cent. The peseta has continued to trade at the top of its 6 per cent fluctuation band, where it is clearly overvalued.

How Spain has fared in the EMS



The authorities have held interest rates deliberately high to draw in cheaper imports from Germany and France and thus force local industry to compete. Soon after joining the ERM, Madrid added another monetary weapon, a credit squeeze, to help cool down the economy, and there were signs that the combination of the two was working.

Annualised inflation of 7.1 per cent when Spain joined the ERM fell to 6.2 per cent by July. Growth in private credit slowed from an average 17.6 per cent in 1989 to 12 per cent by last August. Import growth slowed so much that by August, the trade deficit was up only 1.6 per cent on 1989.

Politically, ERM membership has been the biggest success in Spain's four-year-old EC membership. Mechanically, the ERM has worked as well – the central bank seldom intervenes to hold the currency in its fluctuation bands.

However, the economic benefits, if any, are far from apparent and the Gulf crisis threatens to recharge inflation and widen the current deficit while the rest of the economy continues to cool. The credit squeeze, which initially did more damage to demand than the strong peseta, has meanwhile been discredited by the rapid growth of a local commercial paper market.

That, and Mr Solchaga's modest fiscal restrictions in his budget for next year, would leave the exchange rate, and thus ERM membership, exposed as the last conventional macroeconomic weapon left in Madrid's arsenal. The attempt to import low inflation has not yet worked and the currency is again poised to become a weapon of last resort – Spain devalued in 1976 and 1977 to get itself out of trouble.

In Spain, ERM membership has not been accompanied by profound changes in economic culture. Interest rates of 16 per cent matter little to Spaniards who were borrowing at more than 30 per cent at mid boom in 1987. Moreover, Spain, unlike Britain, has a public-sector deficit, which forces the state to borrow and to hold interest rates up.

Even though credit demand has fallen, the danger is obvious. Spain needs imported oil for 52 per cent of its primary energy needs against an EC average of 32 per cent. This August's Pta7bn (£37m) current-account deficit was three times as high as in August 1989. This year, inflation is now expected to touch 7 per cent, just above 1989. That alone adds a year to convergence.

Mr Solchaga has retreated, under internal party pressure, from a tougher budget. His success will depend on whether anyone in Spain believes the measures he has in place will actually slow inflation. Yet few people think his 5 per cent inflation target for 1991 is credible. If Spaniards, who save little, thought interest rates would fall, then why not wait before borrowing? "People have never believed interest rates would fall," says Mr Joaquim Muns, a Catalan economist.

So Mr Solchaga, having only partly succeeded in engineering an economic freeze, is now banking on the Gulf crisis to finish the job for him. The property boom is over and the country's truck-bound distribution system will quickly pass on oil price rises to consumers. Although the economy remains energetic, the Gulf crisis has raised the spectre of recession. Car sales in September were 35 per cent down on last year and the government is predicting GDP growth of just 2.9 per cent for next year.

This year, employers gave in to wage demands of more than 8 per cent. Next year they may not have the money to do so. Government calls for 5 per cent wage increases next year have already galvanised the big trade unions and will meet strong, perhaps even violent, opposition.

Mr Solchaga is doing his best to be calm. Spain may have had to play an uncomfortably prominent role in Rome in December when EC leaders meet to discuss changes to the Treaty of Rome, the Community's constitution, to pave the way for monetary union. Britain's entry into the same ERM band as Spain's should mean that, for the moment, the Spanish are in trouble but no longer quite so alone.

Peter Bruce

SIR LEON BRITTAN

Proposal for 'hard Ecu' wins conditional approval

MR JOHN MAJOR'S plan for developing a "hard Ecu" stood a reasonable chance of being accepted as the right way forward if Britain recognised that creating a European Monetary Fund was a part of the process towards monetary union, Sir Leon Brittan, said yesterday.

Sir Leon, European Commission vice-president, said Mr Major's commitment that decisions about monetary union should be for a future parliament could be met by incorporating a "trigger mechanism".

He said that Britain's own proposals involved the creation of a "highly supra-national body". "If I were against any kind of pooling sovereignty, I wouldn't be in favour of the Major plan but I think it has merits precisely because it does accept that there is a strong case for moving towards supra-national pooling of sovereignty on monetary issues," he said.

Alison Smith

EC COMMUNIQUE

Member states agree participation details

Communiqué from the EC monetary committee

MINISTERS and central bank governors of the member states of the European Community have decided by mutual agreement, in a common procedure involving the commission and after consultation with the monetary committee, on the terms on which the pound will participate from October 8 1990.

The ministers, the governors and the commission warmly welcome the participation of sterling in the ERM, marking a significant advance in the economic and monetary integration of the European Community.

At the outset of Stage One of economic and monetary union, they take today's decision as a strengthened commitment by the British authorities to pursue a firm anti-inflationary policy based on an appropriate policy mix, in line with the discipline of the ERM.

They emphasise also that the enlargement of the ERM underlines the need for continued efforts and close co-operation among EC countries to secure convergence.

Fluctuation margins of 6 per cent will be observed around the bilateral central rates of the pound sterling for a transitional period. All other bilateral central rates and intervention rates within the ERM remain unchanged. The decision on the pound sterling has only marginal agri-monetary consequences.

The compulsory intervention points in the ERM will be communicated by the central banks in time for the opening of foreign exchange markets on October 8 1990.

NEW CENTRAL RATES units per Ecu

Belgian franc	42.4032
Danish kroner	7.84195
D-Mark	2.05586
Spanish peseta	133.631
French franc	6.89509
Irish punt	0.767417
Italian lira	1538.24
Luxembourg franc	42.4032
Dutch guilder	2.31643
UK pound	0.696904
Greek drachma	205.311
Portuguese escudo	178.735

BILATERAL CENTRAL RATES OF £ against other ERM currencies

Belgian franc	60.8451
Danish kroner	11.2526
D-Mark	2.9500
Spanish peseta	191.750
French franc	9.89389
Italian lira	2207.25
Luxembourg franc	60.8451
Dutch guilder	3.32389

CENTRAL BANKS

Sterling will unsettle cosy arrangement

THE ENTRY of sterling into the ERM presents the central banks of the European Community with a significant challenge.

Into their cosy arrangement has been thrust the fourth most actively traded currency in the world and, historically, one of the most volatile.

Because the ERM now groups two of the four most active currencies, the practical problems of managing the mechanism will grow considerably. These difficulties could manifest themselves as early as this week, when many predict sterling will move to the top of its permitted band against other EC currencies.

Mr Jim O'Neill of Swiss Bank Corporation in London, said: "There is going to be a battle between the markets and policy-makers in the UK and elsewhere."

Although trading volume in sterling has fallen considerably in the past 12 months, the currency's volatility has long attracted bank dealing rooms, which have more chances to make money when currencies are swinging about. Their traders will have a vested interest in maintaining that volatility.

If the UK's decision proves successful, and particularly if there is a move fairly soon from the 6 per cent limit to 2.25 per cent, sterling's stability would mean the attraction of trading it would wane.

LEADING BRITISH and US banks operating in the London foreign exchange market have agreed to widen the spread between buyer and seller rates in sterling in response to a sharp reduction in trading volume in the pound in the past 12 months.

The banks hope the move will make trading of sterling more lucrative to banks and thus encourage smaller banks back into the business.

At a meeting last month, the banks agreed to widen the spread for most deals from 5 to 10 basis points, for trades involving the dollar (each basis point is one-hundredths of a US cent) and from 3 to 5 basis points for trades involving the D-mark (a basis point is one-hundredths of a pfennig).

There are several reasons for the drop in trading in sterling. Many banks have been reducing their foreign exchange operations as they try to economise in a difficult period for banks. Some have withdrawn as they have incurred severe losses in trading sterling, which has been volatile.

As market makers, the banks are required to deal with all comers at the finest prices. But because of the retreat of other banks from the market, they have been unable to reduce their own exposures and have been vulnerable to market swings. Bankers say the effect of this may have been compounded by a relative absence of intervention from the Bank of England, except for when sterling came under severe pressure as it did last month.

In retrospect, it appears that the UK authorities were nervous about a collapse in sterling ahead of entry into the ERM, but were also being careful not to send signals about entry that would be misinterpreted.

ESTIMATE OF POUND EFFECTIVE LIMITS

D-mark	Ffr	Dfl	Italian lira	Bfr	DKr	Punt	Peseta
3.121	10.460	3.519	2,339.67	64.30	11.91	1.16	196.07
2.969	9.916	3.235	2,130.81	58.11	10.95	1.07	180.25

Limits are dictated by sterling's considence in ERM with the peseta, and are less than the theoretical limits of 6% on either side of central rates. Official rates to be published today. Source: Salomon Brothers

The central banks in the ERM consult together three times a day, when they "make observations about their bilateral parities and tell each other about intervention", in the words of one central banker.

However, the efficacy of foreign exchange market intervention in sterling may be far more limited than it was in the case often given as the closest parallel – the Spanish peseta's entry into the ERM. Capital flowed into Spain's relatively underdeveloped financial markets. Spanish companies added to these inflows: seeing the peseta tied to the D-mark, they decided to borrow at low interest rates in the German currency, rather than at high rates in their own.

A relatively small inflow of capital into Spain was enough to put significant upward pressure on the peseta in the ERM.

By contrast, Britain's financial markets are probably the most sophisticated and deepest outside the US, and have the capacity to absorb tens of billions of dollars in inflows. In the face of this, even the EC central banks could quail. Mr Steven Bell of Morgan Grenfell, the UK merchant bank, said: "This is bound to reduce the power of intervention."

Thus, in the short term, many believe that the government will be forced to cut interest rates again fairly shortly. Mr Bell said London's money markets were discounting an 11 per cent base rate by the second half of next year.

In the longer run, the hope of the ERM's proponents is that its discipline will force Britain's inflation rate down to that of its neighbours.

If this does not happen, the fear is that when interest rates are cut, the pound will collapse as the huge capital inflows are reversed. This would eventually force sterling to devalue or withdraw from the interest rate mechanism.

Sterling closed above DM3.02 in New York on Friday. The theoretical 6 per cent band in which sterling can trade against the D-mark would allow it to swing from about DM2.78 to DM3.13. Sterling was last below DM2.78 in February.

In practice, though, sterling can fall only to around DM2.88 without hitting the limit against the peseta: the 6 per cent limit applies against all other currencies and the peseta is 3.5 per cent above its central rate against the D-mark.

Thus, while the peseta remains the strongest ERM currency, it is it rather than the D-mark which will provide the effective limit for any fall in the pound. The sterling-peseta rate then becomes an issue of central importance to the UK authorities. It also means that, while DM2.95 is the so-called central rate, sterling's capacity for depreciation is more limited than its capacity for appreciation.

Stephen Fidler

BRITAIN AND THE EMS

COMPANIES

Business sees a guiding light

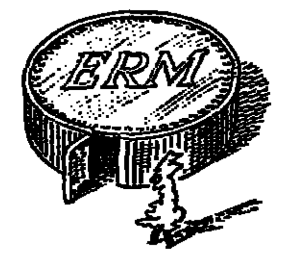
THERE WILL be furrowed brows in the boardrooms of British companies this week as executives start to come to terms with the country's membership of the exchange rate mechanism.

Managers will have to deal with a complex set of related questions. How much will a 1 percentage point cut in interest rates, with more in prospect, reduce their borrowing costs and stimulate demand in the UK? How will their competitiveness with the rest of the European Community be affected by sterling pushing the top of its 6 per cent range against the D-mark and what offsetting measures will they need to take? How will trade with the US be affected if the pound continues to strengthen against the dollar?

They will have one factor in their favour which they did not before, the knowledge that there are limits on sterling's volatility. This stability will help managers draw up their strategies, not just for meeting continental competition but for business generally.

Verson International, the Midlands capital equipment maker, will be exposed to all three factors. About 40 per cent of its turnover of £70 last year came from the UK, with 29 per cent from the rest of Europe and 10 per cent from the US.

According to Mr Tim Kelleher, chairman and chief executive, the stability brought by ERM membership will have strategic significance for companies. He says: "This means we can supply the EC from our British base without worrying that exchange rate fluctuations will cut across us. That in turn means we have no incentive to make acquisitions in Europe to help shield us from those factors. The UK is definitely locked into Europe."



The move into the ERM has confirmed the company's strategy to focus on acquisitions in the US as the priority. Mr Kelleher says: "Protecting against volatility against the dollar will now be important."

This division of concerns will be a feature of many manufacturers' deliberations. An analysis of the turnover of the top 20 engineering companies published this year by County NatWest, the stockbroker, shows that on average they earn as much in the US as they do in Europe.

Mr Kelleher was not worried by the entry rate, which would be tight but not intolerable. He says: "In the past few years we have gone as high as DM3.20. We have invested strongly so our productivity matches our continental competitors. We are not planning to change our approach to pay bargaining at all because we know our productivity trend is good. It is those who have not invested who will be hit."

A case in point will be some of the thousands of small companies which inhabit the undergrowth of the mechanical engineering industry. Investment in that sector grew at only 4 per cent a year between 1984 and 1988.

It is companies in these sorts of sectors, where there has been low investment and relatively laggardly productivity growth, which will see their margins consumed with the pound at DM2.95.

The immediate one point cut in interest rates will be of limited relief. Mr Kelleher says: "It will not make much difference. People have underestimated the lethargy in the real economy. It might get consumer spending going again but not manufacturing."

Of the prospect of further cuts in the pipeline, he says: "So much of business is about confidence and now people can see a clear path for interest rates gradually coming down they will plan with much more confidence."

In Verson's case that will have a bearing not just on demand and the cost of borrowing but directly on its com petitiveness and margins.

The euphoria which has greeted ERM entry might seem ill placed with interest rates at 14 per cent interest rates, the pound above DM3 and parts of industry moving into low gear. Yet many companies believe they can now see a light which will guide them out of the gloom. For some, it will prove to be a false dawn.

Charles Leadbeater

Entry spurs debate over pay bargaining

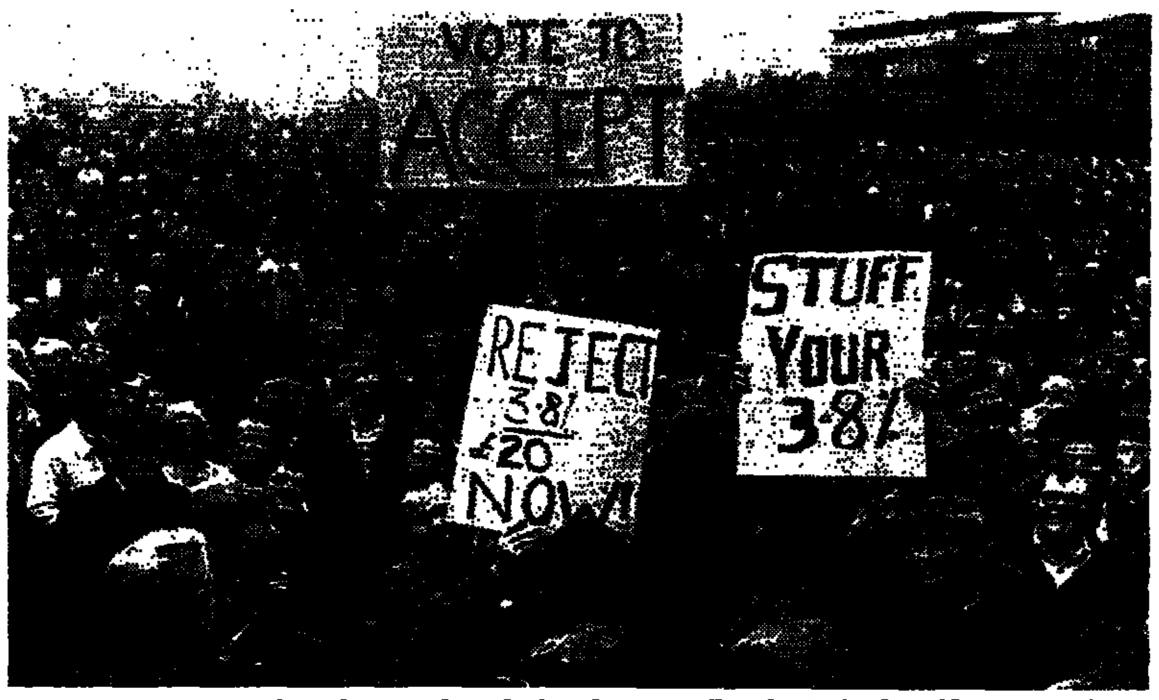
STERLING'S entry into the Exchange Rate Mechanism of the European Monetary System will have an immediate impact on the tone – and possibly the settlement level – of forthcoming pay negotiations. In the longer term it could have implications for Britain's pay bargaining structures.

Among European countries, the UK has one of the least centrally co-ordinated systems of pay determination. Full British membership of the EMS is likely to result in a closer examination of how Britain's European competitors tackle wage talks, especially if the Labour Party wins power at the next general election – due in 1992 at the latest .

Those deliberations will take some years. Of more immediate concern to British industrialists will be union reactions to government warnings that ERM entry will increase the relationship between pay and job levels.

There were no signs yesterday of union leaders moderating their pay demands. Mr Alan Tuffin, general secretary of the Union of Communication Workers, said he would be going for a settlement in excess of inflation in negotiations covering 160,000 workers at Royal Mail Letters.

Predictions of future falls in the inflation rate carried little weight, said Mr Tuffin. "Most of us in bargaining are looking backwards. It is about what has happened over the last 12 months. We are just trying to catch up. We are chasing inflation rather than creating it."



Unhappier times: British Leyland workers during the pay strike of 1981 in the midst of recession

Mr Jack Adams, national officer of the TGWU general workers' union, leading talks at both the Jaguar and Rover Group vehicle manufacturing companies, said ERM entry did not affect the unions' position at the talks. Negotiations at Jaguar and Rover face upward pressure because of pay awards this autumn at Ford and Vauxhall which will lead to rises of more than 13 per cent and 12 per cent respectively, as the second instalment of two-year pay deals.

In spite of the apparently uncompromising comments of union leaders, there are several factors which could ease pay pressures on employers.

First, the easing of mortgage rates will lessen shopfloor demand for higher wages.

Second, union leaders will be less willing to countenance confrontation with employers because of the increased possibility of an early British general election which ERM entry has brought about.

Third, the message that pay rises affect job levels is likely to have an increasingly powerful effect on a British workforce already concerned about the growing number of lay-offs in recent weeks.

Britain's entry into the ERM means that it will no longer be possible to compensate high pay and price rises by allowing sterling to fall. Businesses will lose competitiveness against European rivals unless they curb costs. Emphasis on matching productivity levels abroad will have to increase or jobs will be lost.

Mr Tuffin said yesterday that the complexities of such arguments mean that they are unlikely to carry much weight among workers.None the less it was the prospect of ERM entry which in part prompted Mr Tuffin and Mr John Edmonds, general secretary of GMB general workers' union, to suggest this summer a more centralised system of pay bargaining.

Drawing on practices overseas, they want negotiations to be concentrated in the first three months of the year and for a target range for settlements to be established following publication of the government's annual statement of the economy and a national debate involving unions and employers. This, they believe, would reduce the phenomenon of pay leapfrogging.

In most European countries except the UK, there are industry-level bargains in each industry , whose results apply with the force of law or custom in each company. These are often informed by data from central government institutions and, although pay levels can be supplemented at individual plants, the pattern of settlements tends to be more uniform than in the UK.

The proposal for more co-ordination is not considered an option by the present leadership of the Conservative Party, which during the last 11 years has encouraged further decentralisation of pay bargaining. In the Labour movement many union leaders are wary that more pay centralisation could be the prelude for a statutory incomes policy.

The Labour Party is formulating its pay bargaining policy but it has ruled out a statutory incomes policy. In its policy review, the party says it would adopt a "more open approach to economic management, outlining ... the likely course of the economy and the options facing the nation."

It wants regular talks between government, employers and unions on economic prospects and a new independent statistical unit to provide information on European pay. Its leaders will argue that Britain's participation in the ERM will make the unit's establishment more vital.

Michael Smith

LABOUR PARTY

Kinnock loses economic aces from strong-looking hand

THE Labour Party today finds itself bereft of two of the economic aces it had been counting on to give it a winning hand over the Tories as they start their conference in Bournemouth today.

As sterling joins the ERM and interest rates are cut, the one ace left in Labour's hand – credit controls – looks more like the joker in the pack.

The Government's ability to make swift changes to the British economy and its relationship with continental Europe makes Labour's economic policies appear all the more impotent.

Mr Neil Kinnock had delighted delegates at Labour's conference in Blackpool last week with a speech promising that Labour would negotiate full British membership of the exchange-rate mechanism; cut interest rates to lift the burden on industry; and impose credit controls to contain domestic demand.

Labour had widened its lead in the polls for having presented a deeper commitment to European economic and monetary union than the Conservatives as well as for pledges to spend more on training, education and the infrastructure without making 14 out of 15 taxpayers any worse off.

On the last day of Labour's party conference, it crowed about the anniversary of 15 per cent interest rates and looked forward to another high point in the campaigning diary.

On the last day of the Tories' conference, the retail prices index could show UK headline inflation as high as 11 per cent, twice the average rate of Britain's European partners.

Mr Kinnock has delivered broadside after broadside at the the Conservatives' economic record. "A year ago at their annual conference," he said, "the Tories were promising that they would make the economy stronger. It is now in recession."

In 1979, unemployment was 1.25m and falling. Today, he said, it was 1.6m and rising, while the balance-of-payments deficit had moved from a rough equilibrium towards a £17bn deficit for 1990-91.

While the timing of the Tories' ERM gamble was as much a bombshell to Mr John Smith, the shadow chancellor, as it was to the financial markets, Mr Smith must have been arming himself for this moment. He must have rated as very slim the chances that sterling would still be outside the ERM and interest rates still up at 15 per cent by the time an election came round in 1991 or 1992.

If he becomes chancellor in 1992, he will have the pleasure of saying, as Mr Harold Wilson did in 1964, that Labour had taken office after 13 years of Tory misrule. But until Mr Smith can savour that line, the public will have to be content with policy so far presented.

Mr Smith made obvious in private that the electorate would have to wait until he is chancellor, not chancellor-in-waiting, for the fine print to emerge from the broader picture.

That is the consequence of Mr Smith's understandable refusal to put numbers to his plans for spending and taxation. He can then more easily dissociate himself from the stigmas of high spending, taxation and inflation. Mr Kinnock said he would not cut taxes, although he could change "tax bands to increase fairness".

To make such promises, Mr Smith has to keep his fiscal cards as close to his chest as possible.

It is easier to talk of growth simply supplying cash – the so-called "national dividend" – for the promised increased investments in education, infrastructure and other services.

However, Mr Neil Mackinnon, a consultant to the Labour Party on economic policy, says that if there is a Labour government in 1992, he is afraid that "the UK will be in such bad shape that he [the chancellor] will have to loosen fiscal policy to get the necessary growth out of the economy to fund his spending plans".

Nevertheless, there are still credit controls. The party's economic consultants say Labour realises that separating consumers from credit after a decade of rapid liberalisation of the financial markets would not be enforceable. Thus the controls are more likely to take the form of credit "management" for financial institutions, and the imposition of reserve asset ratios for banks.

As the economy adjusts to the tightening effects of life within the ERM, however, it appears likely that credit controls will be less needed, while the economic growth to fund investment will be harder to come by.

The convergence of Labour's policies with the Tories' – whoever has stolen clothes from whom – underscores the reality that Labour is likely to have little scope for big policy changes if it does inherit the UK economy.

Rachel Johnson


Tony Andrews
Winning hand loses two aces: John Smith and Labour's deputy leader Roy Hattersley

ECONOMIC DEBATE

Labour shifts the attack to underlying problems

LABOUR yesterday signalled a tactical shift in its assault on government economic policy in the light of Britain's ERM entry, to focus more on underlying structural problems such as training and industrial strategy.

Mr Neil Kinnock, Labour leader, joined a chorus of his party's economic spokesman by stressing that the move was a "necessary, but far from sufficient" condition for economic recovery. They said it would bring only short-term gain unless backed by policies to tackle deep-seated economic problems.

The change of emphasis highlights Labour's implicit recognition that Friday's announcement will significantly alter debate at Westminster on the economy – and Europe. Previously, Labour attempted to score political points over differences between Mrs Margaret Thatcher and the Treasury. It urged swift entry into the ERM and sought to portray itself as the more pro-European party.

Labour yesterday said its immediate concerns about delaying ERM entry had been stemmed but they were as nothing compared its fears about the remaining economic problems. Mr John Smith, shadow chancellor, said securing ERM entry, lower interest rates and credit controls had been "just what the Government should do now".

He said ERM had to be accompanied by "IRM" – industrial recovery measures. That would include measures to stop investment falling, boost education and training, and promote exports and a vigorous use of regional policies.

Ms Margaret Beckett, shadow chief secretary to the Treasury, said problems of the "real economy", including poor education and training, would come higher up the political agenda as the next election approached – particularly if inflation was falling.

"Our theme has long been the needs of the real economy," she said. "Inflation is extremely important but I would be surprised if it was quite the same focus of attention at the general election as it is at the moment."

Echoing Mr Smith, Mr Gordon Brown, Labour's trade and industry spokesman, said the government had to "rise to the industrial challenge" of ERM entry. "Without the industrial measures we have consistently outlined, British industry will not get the full benefit from entering."

On the wider question about where joining the ERM had left debate on future European economic and monetary union, Labour found it harder to distinguish itself from the government's position.

Official party policy is that ERM entry makes greater co-operation on monetary policy between European Community countries "both inevitable and desirable". But there is considerable opposition within the party to a headlong rush towards Emu as set out in the Delors report and to the setting up a non-accountable European central bank.

Labour also argues that a "bedding-in" period is needed following sterling's ERM debut before further steps are taken. Like Mrs Thatcher and the chancellor, it believes decisions on a single currency are irrelevant at this stage and wants more debate about Emu.

Where there are differences is in the objectives Labour would seek from European integration. The shadow chancellor said his party placed greater stress on promoting the social charter as a means of furthering cohesion within the community. He also wanted effective regional policies within the EC.

Labour frontbenchers know that in their own ranks there are sharp differences about European integration – at least on the means by which it is achieve, if not the objectives. So far these have been kept under wraps by concentrating on ERM entry as a first step and expressing caution on subsequent stages.

With December's intergovernmental conference on economic and monetary union fast approaching, and the debate on ERM entry removed from the political agenda, that fragile alliance will become far harder to sustain.

Ralph Atkins

UK NEWS

Stricter aero-engine checks likely

By Paul Betts, Aerospace Correspondent

AIRCRAFT ENGINE makers are expected to face much more stringent certification procedures when they develop derivatives of existing engine designs, as a result of the Kegworth air crash.

That is one of the main conclusions of the investigations into the Kegworth, Leicestershire, disaster, in which 47 people died when a British Midland twin-engined Boeing 737-400 crashed in January 1989 on the M1 motorway. The accident occurred when the pilots shut down the wrong engine after a broken fan blade had damaged the other engine.

The CFM56-3C engines powering the Boeing 737 were new derivatives of the CFM56 engine family jointly manufactured by General Electric of the US and Snecma of France.

Snecma officials said in Paris that the technical flaw in the derivative engine would have been seen immediately if it had gone through the full certification process required for brand new engines. However, it did not show up in the normal, less rigorous certification process for derivative engines.

The French engine maker expects the report on the Kegworth disaster – by the Air Accident Investigation Branch of the Department of Transport – to recommend that in future even derivative engines should undergo the longer and more costly certification process for new engines.

"Even if the report does not recommend this change, aero-engine makers will do it because they cannot afford to allow such problems to happen," a Snecma official said.

Heavy vibration developed in the 3C engine when it was operating at full thrust during takeoff. On three occasions, including Kegworth, a fan blade ruptured as the aircraft was on its final climb.

After the failures, aircraft fitted with CFM56-3C engines were grounded. Snecma and GE fitted shock absorbers to the blades as the first step to enable the aircraft to fly again. However, to enable the engines to operate at their full power ratings, Snecma and GE are modifying the span between the fan blades.

Mr Louis Gallois, Snecma's chairman, said in an interview that 370 CFM56-3C engines were being retrofitted. An additional 850 CFM56-3B with lower power ratings were also being retrofitted at the request of airlines, although the 3B version has had no such malfunction. Mr Gallois explained that airlines wanted the change done on the 3B version, which has thrust of up to 22,000 lbs, in order to produce commonality with the 3C, which has thrust of up to 23,500 lbs.

Mr Gallois, who declined to disclose the heavy cost of the engine modifications, said he had been "very impressed" by the thoroughness of the Kegworth accident report, which the British government is expected to make public later this month.

Louis Gallois: "very impressed" by Kegworth crash inquiry

The report is expected to make a number of important new safety recommendations, including proposals to strengthen aircraft cabin floors, the fitting of rear-facing seats in aircraft, changes in cockpit instrument displays, and the fitting of television cameras outside the aircraft so that pilots can see what is happening to the engines.

Mr Gallois acknowledged that the malfunction of the CFM56-3C engine had been a difficult trial. "It was our first crash. But we resolved the technical problems and we were able to show airlines that CFM could give them an efficient and rapid support and response. It was very difficult but it made us more credible."

Airlines have placed firm orders for more than 7,000 CFM56 engines in all versions and about 4,000 engines have already been delivered to customers. The CFM programme was now profitable and Snecma planned to increase the number of its engine development programmes from four to six or seven.

FT SATELLITE MONITOR

Sky and BSB installations show first pause

By Raymond Snoddy

DURING SEPTEMBER there was no net increase in satellite television installations receiving services from Mr Rupert Murdoch's Sky Television or British Satellite Broadcasting, according to the latest FT Satellite Monitor. It is the first month without an increase.

The apparent pause in the number of installations coincides with a large upward swing in the size of the potential market – those who say they will definitely or probably install satellite TV receivers.

The estimated number of homes with satellite TV receivers for September is 1,017,000, a 42,000 decline on the August figure. The survey is based on interviews with more than 5,000 adults and is subject to a sampling error of plus or minus 50,000.

Continental Research, which carries out the survey for the Financial Times, emphasised that the new total was a net figure and likely to be influenced by the fact that Sky Television has recently cut off a significant number of homes for non-payment.

Mr John Clemens, chairman of Continental, said yesterday: "The best interpretation of this month's figure is that there has been no net gain and the total number of satellite system installations continues to be at around the 1m level."

The survey puts the number of Sky-receiving homes at 891,000 and the figure for BSB (a consortium in which Pearson, publisher of the Financial Times, has a significant stake) at 126,000, including individual channels received through communal services in blocks of flats.

The sample identified a total of 194 homes with satellite receivers. Of those, 170 used Astra, capable of receiving Sky and the other Astra channels such as MTV, Screen Sport and the Children's Channel, and the rest were BSB.

The September total of slightly more than 1m means that in the past year more than 750,000 new homes have been added to the total and that 4.7 per cent of British homes now receive multi-channel TV direct from satellite. If those who receive the new channels on cable TV networks are included, the figure is 6.3 per cent, or one in 15 homes. Since August, the total potential satellite TV receiver market has risen by more than 500,000 to 3.3m, compared with 2.78m.

NEWS IN BRIEF

Haughey in fresh pledge to Brooke

MR Charles Haughey, prime minister of the Republic of Ireland, yesterday emphasised his backing for renewed efforts by Mr Peter Brooke, the Northern Ireland secretary, to set up inter-party talks in Ulster. He insisted on direct involvement in any discussions.

Mr Haughey, speaking at an event in County Kildare to commemorate the Irish patriot Wolfe Tone, said Dublin had made clear its willingness to "negotiate new arrangements which could transcend the Anglo-Irish Agreement".

He listed a number of issues still causing concern to the governments in both London and Dublin, including alleged harassment by the Northern Ireland security forces, the closing of border roads and the procedures for holding suspects for interrogation.

Eurotunnel loan

EUROTUNNEL is expected to announce early this week that it has made progress towards completing the £2bn package of new bank loans which it needs to cover its escalating budget.

That would clear the way for a rights issue of £500m next month, and increase the project's total finances to £8.5bn, equivalent to its latest cost estimates.

Pergamon price plan

PERGAMON Press, the scientific publishing arm of the Mr Robert Maxwell's MCC publishing group, is to harmonise the prices of its English language journals across the European Community.

There was concern in Brussels that the company was restricting cross-border shopping.

Women priests hope

EARLY indications of the results of this week's elections to the General Synod, the Church of England's ruling body, suggest a move towards the election of priests who favour the ordination of women.

Last year the Synod voted in favour of the principle of women priests.

SeaCat in dry dock for a further week

By Richard Tomkins, Transport Correspondent

SEACAT, the wave-piercing catamaran that was intended to revolutionise ferry travel between Britain and the Continent, enters its fourth week in dry dock today as attempts continue to solve its teething troubles.

The £10m vessel made an ignominious debut on the route between Portsmouth and Cherbourg on August 14, having suffered five postponements before entering service two months behind schedule.

Inside three weeks it was withdrawn from service because of technical trouble. Operations resumed for 10 days but the vessel was withdrawn again on September 17 and has been in dry dock since.

Hoverspeed, the vessel's owner, says it expects the SeaCat to go back into service on Monday next week. It has not yet decided whether to operate the vessel through the winter season, which starts a fortnight later.

SeaCat is the largest wave-piercing catamaran in the world and the first to carry cars as well as passengers. Hoverspeed says its teething troubles are attributable to its unprecedented size.

The two faults keeping it in dry dock are said to be weaknesses in the impeller intakes which feed the vessel's water jets, and difficulties with the vessel's trim resulting in an unsteady ride.

Rival operators say that when the vessel encountered rough weather during its brief period of service, most of the passengers and many of the crew were ill.

Hoverspeed is confident that the troubles can be put right, and its commitment to the introduction of wave-piercing catamarans on cross-Channel services is undiminished.

It has 10 SeaCat-class vessels on order from the manufacturer, International Catamarans, of Tasmania.

Three are due to replace its ageing hovercraft on the routes between Dover and Calais and Dover and Boulogne next year. One is due to join the Portsmouth and Cherbourg route and the rest may go to the Mediterranean.

Gloom seen in financial services

By David Lascelles, Banking Editor

GLOOM settled over the financial services industry in late summer, according to the latest survey by the Confederation of British Industry and Coopers & Lybrand Deloitte.

Nearly one company in two reported that business was below normal. Two in three said they were less optimistic than three months earlier.

Today's entry into the exchange-rate mechanism of the European Monetary System may change prospects but the results reflect the serious effect of high interest rates and low stock market turnover.

Meanwhile, a survey by Dun & Bradstreet shows business confidence in Britain to have fallen sharply over concern about the Gulf crisis.

The survey gauges the level of confidence as being the lowest since publication began three years ago.

CBI/Coopers & Lybrand Deloitte. Quarterly Survey of Financial Services. CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU.

Exchange Travel hopes fade

David Churchill reports on the state of the tour trade

ADMINISTRATORS for Exchange Travel, the holiday company that went into receivership last month, appear to have given up hope of selling the company in one piece to a rival chain following the decision by the A. T. Mays travel group to pull out of a deal.

Exchange Travel went into receivership with debts believed to amount to more than £30m. The administrators say they still hope to find buyers for at least some of the company's 65 travel shops which have remained shut for the past two weeks.

The company's failure is thought to affect at least 100,000 holidaymakers and comes at a difficult time for most in the industry. Package holidays next summer are sluggish. Many potential customers are holding back because of the combination of high interest rates, high inflation and uncertainty posed by the Gulf Crisis.

The competitive market has led most travel agents to discount their holidays. That means that profit margins are often 1 per cent or less.

So far this year the number of travel agencies to have given up membership of the Association of British Travel Agents has reached nearly 40, more than double the figure that had collapsed by this stage last year.

Exchange's demise poses particular difficulties for the Abta, the industry's main trade body. It has guaranteed that no Exchange Travel customer will lose out.

Abta's potential liability is estimated by some travel sources as £2m, although that might be significantly larger when the administrators complete their investigation into the company.

Abta will meet this week to determine whether all travel agents should now establish a financial bond with it to cover any potential losses from bankruptcy.

Leading tour operator Thomson Holidays is also insisting that the travel agents with which it deals should provide a bond to cover any losses.

Abta will have to cover the cost of holidays booked by Exchange customers because the company's trading was not covered by the usual bond with Abta which most travel agents have to hold.

Exchange was considered to be financially sound because of its long trading record. It was celebrating its centenary in the travel business this year.

Last week three more travel agencies went into liquidation – in Blackpool, Chorley, and Sheffield – with the loss of six outlets.

Health managers put trust in consultation

Alan Pike looks at how the government's NHS reforms are being put into practice

CONSULTATION – a concept elastic enough to stretch from negotiation to flimsy public-relations *stunts* – is in progress on the government's plans for self-governing hospital trusts.

Cynics claim that the consultation exercise comes close to the public-relations end of the scale. Later this year, after the three-month public consultation period, Mr Kenneth Clarke, health secretary, will decide which of 66 applicants should be granted the new freedoms of trust status when the government's health *reforms are introduced next* April.

Mr Clarke is seeking further trust applicants for 1992 and said last month trusts should become the chosen model of management for all hospitals and other health care units. In such circumstances, opponents say, the consultation exercise is unlikely to persuade him to abandon most of the 66 aspiring pioneers.

Regional health authorities will evaluate trust applications *for financial and managerial* strength and likely benefits to patients, and report the results – with responses to the consultations – to Mr Clarke.

The Association of Community Health Councils, which represents consumer interests in the health service, has complained to the government that some regional authorities have established inadequate channels for sounding opinion and are not even bothering to consult community and voluntary organisations.

In spite of such criticisms, the consultation process is provoking all the emotion and bitterness of a hard-fought by-election in some areas.

At Brighton, district health authority managers who want to transfer most of their hospital services to a trust are facing organised opposition from a Stop Hospitals Opting Out campaign. The campaign, *backed by the British Medical* Association, Royal College of Nursing and health service unions, is receiving tacit support and town hall office space from the Labour-controlled Brighton Council.

A campaign newspaper delivered to all Brighton homes contains a ballot form inviting the public to vote on *whether or not they want the* trust. There have been allegations of bias against the campaign's newspaper and against literature distributed by the health authority.

Opponents of the trust were *in the majority* at all five public meetings organised by the health authority to discuss the plan. Mr David Bowden, Brighton's district general manager, says that much of the opposition was to the government's health reforms in general rather than to the Brighton trust plans in particular.

"The reforms are law and *are going to happen.* We now have to make them work in the best interests of the people of Brighton and we believe the additional flexibility offered by trust status will achieve this."

Not all consultation exer*cises are proving as passionate* as the Brighton one, which has generated car stickers, T-shirts, badges and a vigorous correspondence between the two sides in the local press.

At Croydon, south London, a mobile exhibition on plans to create a trust for the borough's district nurses, health visitors, school nurses, speech thera*pists and other community ser*vice staff has been attracting a modest trickle of visitors to clinics, health centres and public buildings.

It is a safe assumption that many people have no idea of *how the community health ser*vices are managed at present, and are less likely to be concerned about plans for change than when famous hospitals are involved.

"We are a relatively small *service in a much bigger* one dominated by large institutions," says Ms Judy Hargadon, the community unit general manager who, with management colleagues, developed the trust proposal.

"Last year the acute hospital services were running over budget, so the spending on community services was cut to help balance the district's books. I don't claim that becoming a trust will bring us vast amounts of extra income, *but it will allow us to* keep what is ours and plan our services more efficiently."

The prospect of trust status is *stimulating* a "management buy-out" type of enthusiasm in some NHS managers who consider that it will offer opportunities to improve efficiency and trim bureaucracy. Part of their difficulty in persuading *other people to see it that way* is that trusts remain one of the central issues upon which political opposition to the government's health reforms tends to focus.

Judy Hargadon: becoming a trust will allow us to plan our services more efficiently

More freedom within strict central financial controls

By Alan Pike

THE 66 applicants to become trusts from next April include hospitals, groups of hospitals, community and mental health services and ambulance services.

Trusts will able to acquire, own and dispose of assets; borrow money; create their own management structures; employ staff on terms and conditions outside national agreements; and advertise. *They will be run by boards* of directors headed by a government-appointed, non-executive chairman and including two non-executive directors from the local community.

Last year's announcement of self-governing trusts in the government's health reform white paper, Working for Patients, led to claims by political opponents that they would become a step towards privatising the health service. The reality is that, although managers will have much more day-to-day decision-making freedom than has existed in the NHS, trusts will still be subject to strict central financial control.

Although trust boards will own their *assets, they will need government* approval to dispose of more than £1m worth. Trust hospitals located in desirable residential areas will not be able to make quick fortunes from unrestrained land sales.

Theoretically, trusts will be capable of going to commercial sources to borrow money for development schemes. Again, the reality is more constrained. Controls on each trust's borrowing will be maintained by government-imposed external funding limits. Most money will be borrowed from the government.

Trusts will gain an annual opportunity to argue for their spending plans at meetings with the NHS management executive in Whitehall, instead of waiting for a share of available funds filtered through regional and district health authorities.

The initial financing of trusts will be by a mixture of public dividend capital, the public-sector equivalent of share capital, and interest-bearing debt. Ministers have not yet decided the balance between the two, but trusts will be set initial financial targets of producing 6 per cent returns.

Trusts will be able to retain and invest surpluses which, in the case of directly managed hospitals, revert to health authorities. That makes the trust concept appealing to managers in institutions such as specialist hospitals, who believe they are guaranteed a high level of activity under the new, contract-based arrangements that will finance health care from April.

Opponents say that, with a finite amount of money in the system, outstanding financial success by a trust could be achieved only at the expense of other hospitals.

Inner-city initiatives at risk, builders say

By Alan Pike, Social Affairs Correspondent

INNER-CITY regeneration is at risk from the downturn in the property industry and the local authority spending squeeze, Britain's building industry warns the government in a report published today.

The Building Employers' Confederation, which compiled the report, is concerned that the government's Action for Cities initiatives – launched after the 1987 general election – are not showing adequate results. One of the BEC's worries is that builders and property developers have a poor understanding of the initiatives.

The report says the government must "act to end the crisis in housing association funding" which had caused many proposed inner-city housing schemes to be put on ice. If it would not make more funds available for new schemes in 1990-91, the government should at least subsidise additional debt servicing costs of housing associations.

City Grant – intended to help finance otherwise unviable private-sector building schemes – has never been properly promoted by the government, says the report. A study of developers in the north-west showed that many were "confused by the multitude of different Action for Cities programmes and did not fully appreciate the special relevance of City Grant to property development".

The squeeze on local-government finance meant that local authority house building would virtually cease, home improvement grants for home owners would be severely rationed, refurbishment and maintenance of council housing would fall sharply, and local authorities' ability to take part in joint initiatives with house builders and commercial property developers would be severely restricted.

The report says the government should increase the scope for partnership schemes between local authorities and developers in inner city areas.

Urban Stall. BEC, 82 New Cavendish Street, London W1M 8AD. £40

LETTERS

Cutting demand for oil

From Mr Ian Skeet.

Sir, Robert Belgrave has made an eloquent appeal for the release of oil stocks (Letters, October 2). It was hardly possible for him to do justice to his Chatham House papers in the length of a letter but the uncertainty in 1979 was not so much concerned with "what if anything consumer governments would do" as with what was going to happen in the producing areas.

The high prices of 1979 were, if you like, a self-inflicted wound but the wound was inflicted not directly by western governments but by the market environment in which we live.

The same is happening today. Oil prices depend in the short term on market perceptions. The perceptions are often wrong but that is the way of perceptions. The question now is simply whether perceptions would be usefully changed by a government decision to release stock. This is by no means certain. What would be helpful would be if oil consumption were reduced and were seen to be reduced.

If the International Energy Agency were to trigger the sharing mechanism, the first obligation upon members would be to reduce their consumption by 7 per cent through a demand restraint programme that each member is supposed to have in place. The second stage, which covers the sharing of available supply between each member state, could be held on ice.

A realisation by the market that demand restraint was being seriously imposed upon consumers would, I suspect, do far more for perceptions than the actual release of stock – a process which sounds a lot easier than in practice it would be.

Ian Skeet,
34 St Cross Road,
Winchester, Hampshire

An alternative to payouts

From Mr Oliver T. Griffin.

Sir, Shareholders should decide at the annual meeting what amount should be paid out as dividend and what retained in the business (Lex, September 14 and "Payouts the favoured option," September 15). That is very much how a private business operates.

Now that professional directors decide the dividend and look to the shareholders for confirmation, the case for considering increased retentions and lower dividends goes by default. Shareholders look to the dividend as an accumulating interest payment and only occasionally at the enhanced possibilities within a company when a rights issue is proposed.

Adopting a policy of declaring for what the retained earnings will be used would be the first step for increasing retentions; issuing scrip to match the retentions the next step; and arranging for a cash alternative for scrip the third step.

By treating retentions as mini rights issues, seeking an underwritten value for them and offering existing shareholders a clawback on the unwanted scrip, there would be a transfer of money from savers to spenders, with the company retaining the profits.

Shareholders who wanted the cash would get it, for whatever better use they had for it (with a small dilution instead of a minor sale). Shareholders with surplus cash and continuing faith in their investment would have a simple low-cost means of topping up their holdings. Those fully committed would continue to get the longer-term advantages of the retentions.

In many individual cases the form of scrip issued could be more tax efficient than the current shares in lieu, which are subject to income tax at the highest rate and do not attract the discounted price that a rights issue should command. Ideally the scrip sale would be taxed as capital gains for those exempt or having unused allowances.

The problem of higher dividends in difficult times is the wish for greater liquidity in professionally managed funds. Falling market prices look like a loss that can only be redressed by higher dividends and then seizing the opportunities of lower prices by buying again with distributed cash. Hence the need for higher dividends in falling markets. Offering low-priced scrip with a good story provides an alternative to payout and recycle.

Oliver T. Griffin,
Griffins Farm,
Holly Lane,
Temple Bruer, Lincolnshire

A meaningless minefield

From Mr Michael Carney.

Sir, John Hunt tries hard to find a thoughtful way through "the minefield of statistics" about Britain's environmental record. ("War of words over a title no one wants," October 1). I doubt if his efforts are worthwhile because the statistics are totally meaningless and thoroughly misleading.

According to the table, the UK has the worst record for infringements of European Community water directives. We had 16 infringements, Italy had 9 and Greece 10. So is our water quality lower than that in Italy and Greece? Or anywhere else in Europe? Of course not.

An infringement means that the EC has taken action either on the basis of information supplied by a national government or as a result of a complaint by a person from the country concerned. EC officials have acknowledged that they have had far more information about UK water quality than from any other country and also received more complaints from environmental groups.

If the facts about water quality in Italy and Greece, for example, were made known to the EC in the same way, their infringement record would be much worse. The same applies to other EC members.

General comparisons with EC or other countries are almost impossible to make because of the lack of reliable information. What we do know is that every other country in the EC shares our difficulties in meeting all the requirements of the EC directives and most of them have even greater difficulties than we do.

We know this from the fact that Eureau, an organisation representative of EC water suppliers, is constantly making representations to the Community about drinking water requirements and the difficulties of all countries in meeting them.

Michael Carney,
secretary,
The Water Services Association of England and Wales,
1 Queen Anne's Gate, SW1

The reason for Serbian disquiet

From Mr and Mrs Aleksa Gavrilovic.

Sir, Judy Dempsey writes, in connection with the Serbian revolt in Croatia, ("Violence continues amid crackdown on Serbs," October 1), that the Croat president, Franjo Tudjman, has mellowed the nationalistic rhetoric which enraged the Serbian minority during the election campaign.

However, Serbs cannot be reassured unless Mr Tudjman withdraws unreservedly the statement he made at the inaugural meeting of his party last February. According to that statement, the independent state of Croatia was not just "an accidental quisling creation" but "also represented the historic aspirations of the Croatian people ...".

The independent state of Croatia was formed in 1941 by Ante Pavelic who annexed to it Bosnia and Herzegovina and parts of Serbia. Pavelic's aim was to make his state ethnically pure. Over 700,000 Orthodox Serbs and 30,000 Jews were massacred and 200,000 Serbs were forcibly converted to Catholicism. Serbs in Croatia have cause for concern.

Ms Dempsey points out the apparent Serbian inconsistency in demanding their own autonomy in Croatia, while denying autonomy to the Albanians in Kosovo.

It should be remembered that the present situation is largely the legacy of Tito. He refused to grant autonomy to the Serbian minority in Croatia, although they had a strong case as victims of the Ustase. On the other hand, he granted autonomy to the Albanian minority in Serbia, despite their collaboration with the Germans and their cruel treatment of the Serbs in Kosovo during the war.

After Tito's death Serbian intellectuals appealed to the federal government to take steps to protect the Serbian minority in Kosovo. Unfortunately the government was too slow to act. This gave the opportunity to Slobodan Milosevic to take power in Serbia.

Mr Milosevic has proved himself inept at finding a solution in Kosovo and he has not yet called for free elections in the largest republic. Yet, one should be wary of giving support to the continuation of an "ethnically pure" climate either in Kosovo or in Croatia.

Zaga Gavrilovic,
Aleksa Gavrilovic,
3 Rowley Avenue,
Stafford

Regional electricity companies may go for telecom market

By David Thomas, Resources Editor

ELECTRICITY companies may try to win telecommunications business after their privatisation planned for December.

A group of senior executives from the 12 regional electricity companies in England and Wales are to draw up options for moving into the telecoms market.

Some chairmen of the companies believe that telecommunications is a natural market for them because a fibre optic network could be built along the industry's transmission grids.

In theory such a network could be used to mount a full-scale assault on British Telecom, although attempts to pick up segments of high value business telecommunications traffic are more likely.

British Rail and London Transport are considering schemes to install fibre optic cables alongside their tracks.

The electricity industry's telecoms study group, led by Mr David Morris, chairman of Northern Electric, might make a submission to the government's review of the British Telecom-Mercury Communications duopoly which is due to start soon.

However, the study group will not conclude its work until the companies have been privatised for fear of raising concerns about future plans in the minds of potential investors.

Almost all the regional companies have been cultivating a cautious image by emphasising their determination to concentrate on their core electricity distribution functions in their early years in the private sector. Northern Electric, for example, has backed away from previous plans to invest in cable television.

Joint ventures with the new breed of independent electricity producers are the only type of diversification which most regional companies have admitted considering.

The regional companies therefore wish to avoid public statements on their interest in telecommunications before the publication of their privatisation prospectuses.

Government desire to clamp down on spending risks bitter party row

By Philip Stephens, Political Editor

THE TREASURY'S determination to hold public spending to below £200bn next year threatens a bitter behind-the-scenes row over the health, education, defence and employment budgets at this week's Conservative Party conference.

The row - the most serious since the early 1980s - will underline the weekend message of treasury ministers that sterling's participation in the EMS exchange rate mechanism is not a signal for a pre-election spending boom.

Mr John Major, the Chancellor, warned repeatedly at the weekend that curbing inflation would remain his key priority. He dismissed suggestions that the ERM decision was designed to pave the way for a snap election next June.

Whitehall officials stressed that the government was not prepared to undermine sterling's credibility within the system by relaxing fiscal policy. Mr Major, however, implicitly acknowledged that a higher level of inflation meant that it would be impossible for the Treasury to stick to its £192bn target for public spending in the financial year beginning next April.

It is thought that, instead, it is attempting to limit the overshoot to around £5bn or so in order to keep below £200bn.

Assuming that the financial markets continue to react favourably, the government believes the decision to join the ERM will provide the backdrop for a "clear and confident" tone when the Bournemouth conference opens tomorrow.

Mr Kenneth Baker, the party chairman, said in an interview with the Financial Times that the government's commitment to opportunity, choice, the environment and strong leadership would provide the central theme.

Mr Baker, however, said that ministers would avoid specific pledges for inclusion in its manifesto at the general election.

Despite the EMS decision the date of the election remained undecided: "All options are open - 1991 and 1992 ... clearly we will choose to go when we think we will win".

He added that: "I have made it clear that this is not a manifesto conference."

Senior ministers were privately admitting that the public spending negotiations had become increasingly acrimonious.

A number of departments, including the Foreign Office, North Ireland, Environment

Kenneth Clarke: has reached deadlock with Treasury

and Transport are thought to be close to settling their budgets.

Mr Tony Newton, the social security secretary, is said to be resigned to accepting a freeze on child benefit and tough limits on some other, discretionary, benefits in return for the extra £2bn needed to uprate pension and social security payments in line with inflation.

Mr Kenneth Clarke at Health, Mr John MacGregor at Education, Mr Tom King at Defence and Mr Michael Howard at Employment, however, have reached deadlock in their negotiations with the Treasury.

The four are said to be ready to demand, if necessary, that the Star Chamber of senior ministers be convened to adjudicate on the disputes.

Mr Clarke, whose reforms of the National Health Service are to be implemented next year, needs about £2bn simply to hold his budget steady in real terms.

He has warned Mr Norman Lamont, the chief secretary to the Treasury, that the health service will face a politically damaging financial crisis in the run up to the general election unless his demand is met.

Mr Howard is resisting Treasury demands for cuts in the budgets of the government's new Training and Enterprise Councils, while Mr Tom King, the defence secretary, is arguing that the Gulf crisis means that cuts in his budget should be shelved indefinitely.

The Labour's Party's decision to put education at the centre of its campaign at the election has strengthened the hand of Mr MacGregor, but treasury officials insist that he will have to accept only a fraction of his original bid.

Kenneth Baker, Conservative salesman. Page 34.

Training bill lower than claimed, says Labour

By Lisa Wood

ANNUAL expenditure on training by employers is substantially less than the £14.4bn that the government claims, according to a report by the Labour Party.

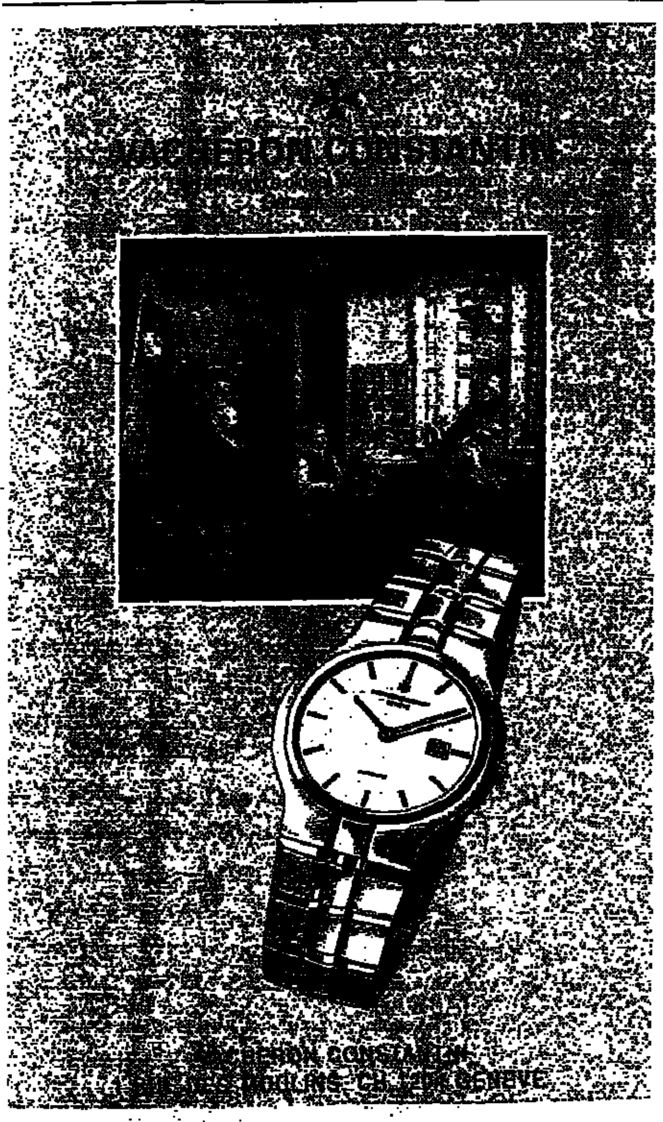
The report, which will be published later this month, said the overall direct expenditure on training averaged £156 a year per employee, "a mere 10 per cent" of the figure quoted in the government's recent report, Training in Britain, said Mr Henry McLeish, Labour's spokesman on training.

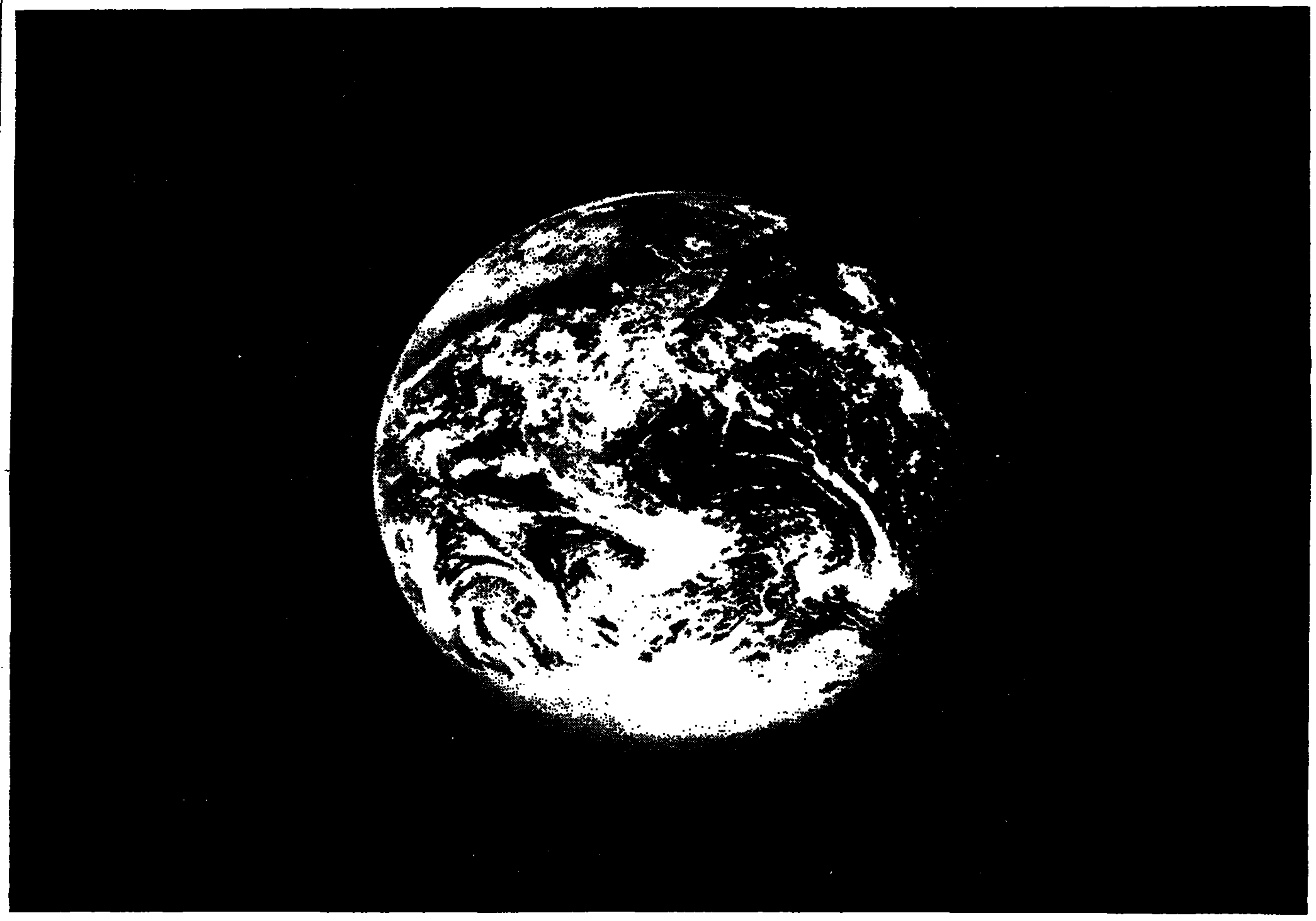
The Labour party's study is based on published and unpublished data from the Government's Labour Costs Survey 1988.

Mr McLeish said this included training support costs such as training centres and the wages and salaries of trainees and "excludes the more abstract and unquantifiable costs" used in Training in Britain such as the foregoing of salary by the individual during training and general corporate overheads.

The Labour party is looking at how the French system of companies being statutorily obliged to spend a fixed amount on training could be adapted to the UK.

According to the report annual training expenditure per employee by sector, including wages, varied from 0.9 per cent of total labour costs in distribution to 2.5 per cent in construction.





IN BRIEF..

MOWLEM NORTH WEST has started work on the £9m "Wirral Leisureland" development at Croft Estate, Bromborough, for THI Developments of Chester.

The first complex of its kind in the area, it will comprise a seven-screen multiplex cinema, 10-pin bowling alley, brasserie and nightclub, all operated by Rank Leisure.

The £3.25m contract for the shell of the building, which will cover 90,000 sq ft and have parking for 1,300 cars, will be completed by May 1991.

* * *

Contracts worth nearly £5.8m have been won by LAING *YORKSHIRE for projects in* York, Bradford and Leeds. The largest is a £5.1m contract from General Accident for 5,200 sq metres of shops and offices in Swinegate, York. The development will be built on piled foundations with reinforced concrete frames clad with brickwork.

In Leeds, the company is converting a former toy store in Thornton's Arcade, Briggate, into four shops. Each one will have a ground floor retail area with new shopfront, first floor staff area and second floor storage area. The contract, awarded by Co-op Insurance, calls for timber floors, staircases and doors.

* * *

J.JARVIS & SONS has started work on three contracts in London and Surrey totalling £8m. The largest is a £5.6m offices and residential development in Bedfordbury, WC2, for College Estates.

The work is in two sections comprising a five-storey office block with basement and a six-storey residential block of 30 flats with a landscaped first floor deck and a ground floor car park.

In Lowndes Square, SW1, additional refurbishment work valued at £1m is being carried out on appartments for Sun Life Properties and in Camberley High Street the £1.3m groundworks and superstructure of a town centre redevelopment is under way.

CONSTRUCTION CONTRACTS

Housing associations' plan

COUNTRYSIDE PROPERTIES has started work on one of the largest new social housing developments to be carried out in London in recent years. Under a £14.7m contract with the South Docklands Housing Consortium, which comprises seven local housing associations, the Essex-based company will construct 264 homes in south east London.

The homes are being built on three sites in the former Surrey Docks, known as Norway Yard, Barnard's Wharf and Finland Quay. A total of 203 homes will be provided on the Norway Yard and Barnard's Wharf sites, with accommodation ranging from one bedroom flats to five bedroom houses and including a warden-assisted complex for the elderly, which commands a riverside location overlooking the River Thames and Canary Wharf.

Planning consent was granted by the LDDC last month for the third site, Finland Quay, and work will start in November. Countryside's scheme will provide 59 one and two-bedroom flats and two three-bedroom houses on the one acre site, which features a substantial water frontage. Finland Quay is one of the last vacant sites in the London Dockland Development Corporation's award-winning Greenland Dock.

Fitting-out Essex department store

Building workers from TARMAC CONSTRUCTION are fitting-out a new department store as part of contracts received worth nearly £12m.

A £7.1m project, at The Exchange Shopping Centre, Ilford, is being undertaken for the Owen Owen Group.

It involves fitting-out the three floors, each with a suspended ceiling and raised floor to conceal services, and the provision of a restaurant, staff areas, escalators and feature lifts. The project, due for completion next summer, is being undertaken by the Harpenden office.

The company also has two office refurbishment contracts in the north of England - at Leeds a £2.3m contract for British Telecom and at Salford a £451,000 contract for Midland Bank.

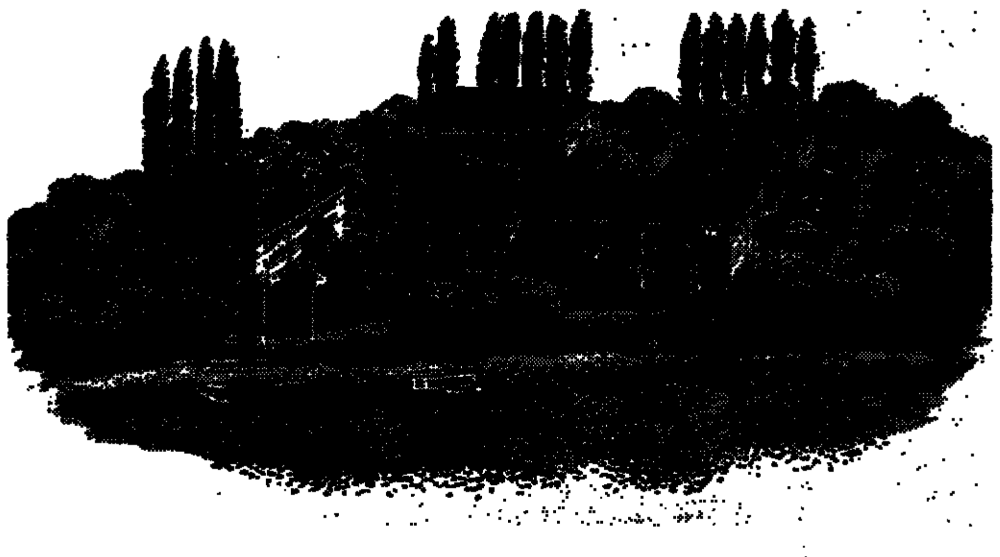
Two projects for housing associations have been awarded to the contract division. Both contracts, each valued at about £1m, are for work on homes at Wood End, Coventry, for Orbit Housing Association, and designing and building homes at Bolton for Portico Housing Association.

Offices development in King's Cross

WILLETT, a Trafalgar House company, has been awarded contracts worth £7.1m for work in London and Trowbridge.

At Pentonville Road, in London's *King's Cross area*, Willett has started work on the construction of a seven-storey office building with a gross floor area of 3,590 sq metres. The £4.7m contract is for Reinhold (King's Cross) and includes in situ reinforced con*crete bored pile foundations* and pile caps being carried out under a sub-contract by sister company, Cementation Piling and Foundations.

A prefabricated metal main staircase with stainless steel balustrading is included with *aluminium double glazed win*dows, curtain walling and two passenger lifts.



TRY CONSTRUCTION, a subsidiary of Try Group, has been awarded an £8m contract to build an office campus scheme *(pictured)* at Cowley, near Stockley Park and Heathrow Airport. The 86,000 sq ft development, called the "Grand Union", comprises two and three-storey air conditioned office buildings with individual units of 5,000 sq ft and 20,000 sq ft built in traditional style in brick under pitched roofs. The site will have substantial landscaping to complement the waterside environment provided by the Grand Union Canal which borders the site.

LEGAL COLUMN

Firm sees fresh fields in Frankfurt

By Robert Rice, Legal Correspondent

AT THE end of this month City solicitors Freshfields will open its doors for business in Frankfurt, in what used to be West Germany. In doing so it will become only the second of the leading UK law firms to open in Germany.

When Clifford Chance *opened in Frankfurt in January*, in conjunction with Gleiss & Partners, one of Germany's leading commercial practices, it highlighted a difficulty that had been concerning the large UK and US law practices for some time: should they or shouldn't they open an office in one of Germany's main commercial centres?

At the time, most of them appeared to think that it would be better, from their clients' *point of view*, to maintain close relationships with Germany's top commercial law firms and to refer work to them when advice was needed on German law.

Momentous things have hap*pened in Germany since Janu*ary, but the arguments for or against opening a law office there have changed very little as a result of reunification. West Germany was already Europe's largest economy and in that respect there were sound reasons for being there long before the Berlin Wall came down.

However, two events that occurred since January have had quite a considerable bearing on the question. The first was the announcement in February by Freshfields that it intended to open a Frankfurt office, and the second was the formation in April of the "Alliance of European Lawyers", involving five of continental Europe's leading law firms.

If Freshfields originally felt, like most of the other leading firms, that its clients' interests were best served not by opening an office in Germany but by providing them with advice from a combination of the best firm in the UK and the best firm in Germany, what caused it to change its mind?

Mr Julian Francis, who will be the managing partner of the Frankfurt office, says the firm doesn't really look at the issue in those terms.

Even when the firm is well established, Mr Francis expects relations with other top commercial German law firms to remain friendly. German lawyers are badly overworked at the moment, so there is plenty of scope for doing work without putting a strain on relations.

Neither are they setting up in Frankfurt for cosmetic effect. "We wouldn't be doing this if we thought it wasn't going to be profitable," he says.

Freshfields wants to build an office in Germany to compare with its Paris office, which over the last 15 years has become one of the most successful and respected commercial law practices in France and now boasts some eight partners and 40 lawyers, three quarters of them French.

It will take time to build up a German practice of similar size and stature, but the aim eventually is to be able to offer clients combined UK/German advice and French/German advice on the ground. The initial staffing of the office reflects those requirements. There will be two UK lawyers, two German lawyers and possibly a third by the end of the year, and one French lawyer. Mr Francis expects the number of German lawyers to double within two years.

A Frankfurt office will generate work for other Freshfields offices

Much of the initial benefits of having a Frankfurt office will be in the work it generates for Freshfields" other offices, primarily London and Paris, and perhaps to a lesser extent Tokyo, Hong Kong and New York, he says.

It also expects to do a large number of German-based deals, and Mr Francis says there are plenty of those about. Freshfields is already acting for Gimz AG in its bid for Aaronson Brothers, having been brought in by Shearson Lehman in Frankfurt.

The Alliance of European Lawyers involves Germany's Boden Oppenhoff Rasor Schneider & Schiedermair; the Belgian firm De Bandt, Van Hecke & Lagae; the Dutch firm De Brauw; Blackstone Westbroek; France's Jeantet et Associés; and Spain's Uria & Menéndez. That is a powerful grouping. Each firm is a leading operator in its own home territory.

The principal aim of the alliance is to provide a cohesive pan-European service through teams of specialists from each member country.

The significant point about it is that it contains no UK law firm. The Alliance says that the member firms decided that they each enjoyed such good relations with a number of the UK's leading commercial firms that it would be counterproductive to tie themselves into a semi-permanent relationship with just one.

Why do those two events affect the way *UK firms look at* the question of whether to open an office in Germany or not?

In relation to the Alliance, the answer is that if the trend towards multinational associations continues, then the freedom currently enjoyed by the leading City firms to refer the German end of transactional work to the German law firm best suited to deal with it may become restricted.

Firms such as Linklaters & Paines and Slaughter and May believe strongly that that is the best way of providing their clients with the best advice.

They are used to working with, and trust the standards and expertise of, firms such as Boden Oppenhoff or Frankfurt's Müller Weitzel Weisner. If their access to them is shut off because they have joined a multinational alliance for co-operation on international work, then there may be no alternative but to set up in Germany and build up their own expertise in German commercial law.

Given that it will take a long time to build up the sort of expertise offered by Germany's established commercial law firms, it is not a very attractive proposition either for the firm or its clients.

It remains to be seen how many more such alliances will be set up. Some lawyers believe the Alliance is already struggling and that it may well shake itself apart, discouraging others from following its example.

The difficulty, the cynics say, is that each firm goes into the arrangement thinking it is going to get more out of it than it is putting in. The trouble with that is that only one firm can be right and all the others must be wrong.

Others, however, feel that more European alliances, involving French and German firms in particular, are inevitable. Mr Walter Oberreit of Cleary Gottlieb Steen & Hamilton in Brussels says that although German firms have traditionally been small and have only recently been allowed to merge their own practices, they are now busy trying to reach "critical mass" so that they can start talking to Dutch and Belgian firms about forming alliances that will allow them to compete on equal terms with the large UK and US law firms in Europe.

The concern about Freshfields opening in Frankfurt is more straightforward. As Mr George Inglis, the senior partner of Slaughter and May, says: "Our concern about them being there is that they are sit*ting in* Germany talking to our German clients and they might seduce them away. If they get well known in Frankfurt it is possible that German banks, for example, might say, 'Well, we talk to them in Frankfurt let's use them in London'.

Slaughter and May fears its German clients may be seduced away

"I think the reason Freshfields has gone into Frankfurt is to pick up German work in London. It's not going to make any sensible money on the ground for a very long time.

"We've made it known to German lawyers that we don't want to open an office there but we have also warned them that if it looks as if Freshfields has stolen a march on us and has picked work in London which we would have expected to get then we may have to follow suit."

Which would be a pity, he says, because if you believe, as Slaughter and May does, that a law firm's main purpose is to provide the best possible legal advice to its clients, then it is inconsistent to tell them that the best advice on a question of German law can be obtained from your German office, because it cannot.

The best advice on German law, he says, will be available from the best German commercial law firms and it will take years to build up a German office to a position where it can provide a comparable service.

MANAGEMENT

Corporate audits

Intangible cost of the environment

David Waller on moves by accountants to assess the impact of "green" issues for their clients

Earlier last month, one of the UK's big accounting firms launched an entirely new product: the so-called positive audit for the environment. Although cynics dismissed the initiative as a mere marketing device, this is an early sign that the accountancy profession is "going green".

Can accountants make a useful contribution to environmental protection? If they used recycled paper when conducting their audits, no doubt whole swathes of forest could be saved, but there is, perhaps, more to it than that. The bigger questions are addressed in a report by Bob Gray of the University of East Anglia.

The report argues that accounting is far from being a neutral mechanism for recording business transactions; it is a product of the very system of values which tolerates, even encourages man's despoliation of the planet in the pursuit of private gain. "Accounting is implicated in the construction of a social reality," the report contends.

Gray, who is reader in accounting at East Anglia, states that traditional accounting reflects the limitations of neo-classical economics. He argues that apparently innocuous double-entry book-keeping is shot through with the assumption that ownership does not entail any notion of stewardship, that property rights include the right to destroy the thing owned.

"Only things over which property rights exist can generate price," he says. Thus aspects of something that cannot be reflected in the price (eg land's ability to support animal life) "cannot be part of accounting's picture."

For much of the report, the argument is conducted at this sort of level – ie on a plane far removed from everyday commercial life – but Gray believes that accountants can do something to help. They have technical skills and a reputation for professional independence and excellence which ought to be diverted towards preserving the environment, he argues.

Indeed, this was the case put by Coopers & Lybrand Deloitte, the UK's largest accounting firm, when it launched its environmental audit service earlier last month. "Our audit teams are experienced in evaluating risks to your business," Cooper's marketing blurb says, "in assessing the controls which you establish in response to those risks and giving independent, objective advice based on our findings."

Gray's report asserts that the skills accountants deploy when conducting an audit of an industrial company can easily be transferred to an environmental audit.

Accountants have no direct knowledge about the life of specialist machinery, shipping law or the realisable value of a warehouse – but nevertheless manage to measure these imponderables with help from other experts. The report says that the same principle ought to apply to the measurement of site toxicity and waste emissions.

But elsewhere in the report, accountants are (rightly) criticised for not being able to come to any sensible conclusions on the measurement of intangibles such as brands, goodwill and the impact of inflation on reported profits. It will not be easier for the accountancy profession to come up with a way of measuring "depletions and degradations" of natural capital, which are even more intangible than brands and inflation.

Towards the end of the report Gray acknowledges the magnitude of the task: "a fully representative integrated financial/social/environmental accounting system would be a colossal undertaking, and probably, in any realistic sense, impossible."

Nevertheless, Gray makes some tentative recommendations. Companies should develop an environmental department, he says. There should be regular monitoring, reporting and auditing of compliance with legal requirements. Energy audits should be set up, energy accounting considered. Emerging issues should be monitored, and "environmental impact analysis" should be considered. Each cost centre should have its environmental budget.

Also needed: a new classification of assets to recognise the differences between man-made, natural and what the report calls critical capital. "Environmental asset accounting and maintenance" ought to be developed, as well as something called "resource-flow input-output analysis". These techniques are not explained in great detail and Gray admits that they suffer from a combination of "theoretical flaccidity and practical difficulty".

The report recommends the adoption of the United Nations' initiative on external environmental reporting, which suggests, *inter alia*, that companies should include in their annual reports: the organisation's policy on the environment; the capitalisation of expenditures on the environment; identification of contingent liabilities which will arise in the course of bringing the company up to higher environmental standards.

The problem for accountants is that they have little power. Like other types of professional, accountants are in business to service their clients and will only jump on the environmental bandwagon when it seems profitable to do so, ie when companies start getting worried enough about the environment to pay out fees in an effort to do something about it.

Asking what accountants can do to save the planet is akin to deliberating on whether the tail can wag the dog.

The Greening of Accountancy: The Profession After Pearce. A report commissioned by The Chartered Association of Certified Accountants by R H Gray, School of Information Systems, University of East Anglia. Available from the CACA, 2 Woodside Place, Glasgow G3 7QF. Price £20.

Sprouting of green consultancies

Although this year's £1m fine of Shell for polluting the River Mersey fell far short of what Exxon is facing after the Valdez disaster in Alaska, it was nevertheless higher than any penalty previously imposed by a British court and a reminder that companies owe it to their shareholders, as well as the environment, to take a closer look at their practices.

However, a Gallup survey commissioned by Coopers & Lybrand Deloitte in August showed that only "54 per cent of companies questioned had given detailed board consideration to the impact of the environment on their business", which means that nearly half had not considered how increasing awareness of environmental matters was likely to impinge on their businesses. Only 41 per cent had a formal environmental policy.

Pressure on companies to improve their environmental records and not just add a touch of cosmetic greenery to the corporate image is nevertheless growing. EC member states are currently discussing a directive that would call on all companies to undergo an environmental audit and a future Labour government would consider similar legislation.

There has already been an explosion in the number of consultant groups offering environmental audits, environmental impact assessments and advice on how companies should manage waste disposal in anticipation of the "duty of care" provisions in the new environment protection law due to make its way on to the statute books later this year.

According to work carried out by the research group Environmental Data Services, there are now 225 green consultancies in the UK, an increase of 80 per cent over the past five years, and in the past two years there has been a near doubling of the number of full-time professional consultants working in them.*

With a European consultancy market estimated to be worth $1bn a year, according to Environmental Research Limited, one of the UK's largest consultancies, an increasing number of these groups is offering services across the continent.

A recent recruit, Coopers & Lybrand Deloitte, says it will include in its annual financial audit of a company's accounts an assessment of how well attuned the management is to actual or potential threats to the environment from its business.

The firm believes responsibility for environmental issues is too often left to junior staff and hopes its review will help potential or actual problems to be addressed at board level.

Coopers Deloitte's new service raises the old question of whether auditing firms should use their privileged access to clients at the annual financial audit, a service where margins are relatively low, as an opportunity to market other higher value services like consultancy.

The practice is banned in some other EC countries like France and Italy where audit firms are not allowed to offer tax and management consultancy from the same legal entity in order to maintain independence at the audit.

Among environmentalists there remains a degree of scepticism that services like that offered by Coopers Deloitte are little more than marketing ploys. In the same way that most institutions like Norwich Union now pay more attention to environmental issues when choosing an investment but do so without reference to specialists, Coopers Deloitte will only assign environmental professionals if the client asks for a full consultancy service.

The benefits of such a service extend beyond keeping companies out of court. Coopers Deloitte says an environmental audit can also help a company's share price. Being an environmentally aware supplier, it is argued, may well make the difference between whether a contract is won or lost.

**Directory of Environmental Consultants, published by Environmental Data Services. Tel 071-278 4745. £40.*

Richard Gourlay

No easy options for managers

Simon Holberton on effects of the ERM

Britain's entry this morning into the exchange rate mechanism (ERM) of the European Monetary System was welcomed by business organisation like the Confederation of British Industry but, leaving aside macro-economic considerations, what does it mean for managers?

The first thing that can be said is that, in the short term at least, it is unlikely to make the manager's job any easier. While exchange rate stability will be welcome – although the 6 per cent variation around a central rate of DM2.95 is hardly fixed – the relative inability of the pound to depreciate means that managers will have to pay even closer attention to costs.

The competitiveness of UK manufacturing will be the key to business success in a world where the exchange rate is not allowed to devalue. For example, Germany's unit labour costs in manufacturing are rising at 2 per cent; in Britain equivalent costs are rising at a rate closer to 7 per cent.

If this disparity in costs continues then a manufacturer which currently enjoys profit margins of 10 per cent will find them completely eroded by 1992. A company's only way to remain competitive will be to improve productivity, lower costs, or both. Keeping costs under control and reducing them is, therefore, no more a thing to strive for but something to achieve. It could be the difference between survival or extinction.

There may be, however, some initial one-off boosts to corporate profitability from ERM entry. In particular corporate treasurers may find life a little easier and profitable.

A survey conducted by the CBI and Price Waterhouse in March found that companies envisaged considerable savings from not having to take out insurance to protect themselves from any untoward currency fluctuations.

The survey found that 88 per cent of the value of UK exports to European Community countries is hedged, or the value of the income protected in some way. The CBI concluded that ERM entry would mean greater exchange rate stability and therefore reduce the need for hedging. It estimated short-term savings of £100m. (This is a guess and corporate treasurers may take some time before they are prepared to deal with Continental counterparts on an unhedged basis.)

A broader capital market is now open to UK companies. Financing considerations may have to be re-evaluated. If today's sterling exchange rate is credible and thought to endure then companies could raise funds more cheaply in Germany and France where interest rates are considerably lower than the current 14 per cent and above on offer in Britain. This would help in reducing financing costs.

The CBI survey found that companies would be more interested in exporting to the continent in a situation where the pound's value was protected. It estimated that UK manufactured exports could rise by 4.3 per cent, or £2.9bn in the first year. But this is only an expectation.

The ERM will not make life a lot easier for UK managers. The experience of France is instructive. The Mitterand Government embraced a "franc fort" in 1983, but it was only five years later that the benefits began to show through in terms of economic growth. In the short-term, deflation is bad for profits and employment although the long-term benefits of stable prices can be seen in German performance.

That said, by 1989, France had achieved German levels of inflation performance (3.5 per cent), but unemployment was 9.6 per cent and France's trade deficit some FFr23bn.

EC Inflation and Growth Rates

	1974-79*	1980-88*	diff*	1974-79†	1980-88†	diff†
ERM‡	10.3	6.5	−3.8	3.1	1.9	−1.2
UK	15.0	7.8	−7.2	2.3	2.2	−0.1

*Inflation †Real output growth rate ‡Average of all ERM countries. NOTE: All entries are means of annual growth rates of real GDP and the GDP deflator, all data taken from OECD Economic Outlook Dec 89. Source: Output, Inflation and the ERM, discussion paper 10-90, Centre for Economic Forecasting

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THE WEEK AHEAD

ECONOMICS

Inflation news from UK and US

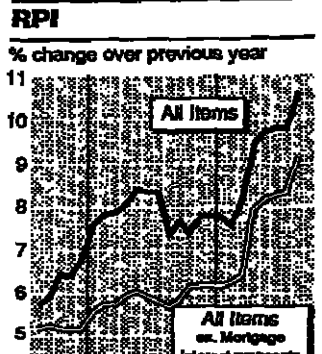
ALL EYES will be on sterling and British financial markets this week following the UK government's decision to enter the exchange rate mechanism of the European Monetary System.

But such excitement will not stop the flow of regular statistics and long planned events. Indications this week of the inflationary pressures weighing on the slow growing economies of the US and Britain, and Germany's financing requirements following unification will also be of interest to financial markets.

Mr John Major, Britain's chancellor of the exchequer, will be hoping that the retail prices index for September, which is released on Friday, will mark the peak of the current inflation cycle. During the recent annual meetings of the International Monetary Fund and World Bank in Washington, Mr Major said that UK inflation was about to peak and would fall sharply after some delay.

RPI

% change over previous year



Whether this prediction turns out to be true could depend on future events in the Gulf. But the consensus of analysts' forecasts compiled by MMS International, the financial research company, is for a 0.9 per cent increase in the retail prices index between August and September that would lift the annual inflation rate to 10.8 per cent from 10.6 per cent in August.

On Thursday, Mr Major will be again be displaying his considerable political talents when he addresses the annual conference of the British Conservative Party. His speech will be closely watched for any hint of further cuts in interest rates.

Today is an important day for the German bond market. Terms will be set for the first government bond of the newly unified Germany. The issue will be the first of many needed to finance the absorption of eastern Germany into the enlarged Federal Republic.

Other statistics and events (with MMS consensus forecasts in brackets) include:

Today: US, Columbus Day holiday, some US markets closed. UK, Manufacturers' input prices for September (up 1.9 per cent, seasonally adjusted), September output prices (up 0.3 per cent)

Tomorrow: France, Revised second quarter GDP (up 0.1 per cent against first quarter, up 0.9 per cent on year).

Wednesday: Japan, Market holiday.

Thursday: US, September M1 ($5.8bn), M2 ($15.5bn), M3 (4.2bn). Money supply figures for week ended October 10. Australia, September unemployment rate (7.5 per cent), employment growth (minus 17,500).

Friday: US, September producer prices index (up 1.3 per cent), PPI ex-food and autos (up 0.4 per cent), September retail sales (up 1 per cent), sales ex-autos (up 0.4 per cent). August wholesale trade. UK, Bank of England quarterly analysis of bank advances.

During the week: Germany, September wholesale prices index (up 0.9 per cent on August, up 1.4 per cent on September 1989), September producer prices (up 0.5 per cent on August, up 2.2 per cent annually), August retail sales (up 8.8 per cent annually). Japan, September trade balance, customs basis ($6.3bn surplus).

Peter Norman

UK COMPANIES

THE DOWNTURN in demand for business computers is expected to have cut heavily into margins at Amstrad, the UK electronics company due to report full year results on Wednesday.

Analysts are expecting pre-tax profits of £40m-£45m, compared with £76.6m last year. Turnover should be static at around £630m-£650m, with disappointments from the professional computer range and most other products, except for recent promising satellite dish sales.

There are still some structural problems, but the company could be past the worst, with anticipated write-offs of over £20m to cover its investment in US-based Micron Technology.

From debt of £150m in 1989, Amstrad should have net cash, and inventories halved from last year's £350m.

Laura Ashley, the clothing and home furnishings group which has just announced a cut in its manufacturing divisions involving the loss of 1,000 jobs, is to announce its interim results on Tuesday.

These are expected to show how tough the retailing market has been for Laura Ashley although the company may just break even at the interim stage.

The company's followers are looking for a more satisfactory outcome for the full year and around £5m in pre-tax profits.

Analysts will also be keen to know how Laura Ashley's recent agreement with Jusco, the Japanese retailing group, will help to strengthen its position.

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Adscene, Howfield Manor, Chartham Hatch, Canterbury, Kent, 11.45
Fleming Enterprise Inv. Tst., 25 Copthall Avenue, E.C., 12.00
Mid Wynd Intl. Inv. Tst., 10 Glenfinlas Street, Edinburgh, 11.00
Palmerston Hldgs., Covent Garden Exhibition Centre, Great Queen Street, W.C., 10.30
BOARD MEETINGS
Finals:
Intereurope Tech. Servs.
Pochins
Interims:
Abtrust New Euro. Inv. Tst.
Aviva Petroleum
British Dredging
Chepstow Racecourse
Havelock Europa
Helical Bar
Hunting
ISA Intl.
Lyles (S.)
North British Canadian Inv.
Touchstone

■ **TOMORROW**
COMPANY MEETINGS:
Cabra Estates, Brown's Hotel, Dover Street, W., 10.30
Flagstone Hldgs., The Britannia Inter-Continental Hotel, Grosvenor Square, W., 11.30
Fleming O'seas Inv. Tst., 25 Copthall Avenue, E.C., 12.00
London Securities, Britannia Inter-Continental Hotel, Grosvenor Square, W., 9.30
Practical Inv., 27 Minories, E.C., 12.30
Property Co. of London, Collingtree Park Golf Club, 90 Windingbrooke Lane, Northampton, 11.00
Wentworth Intl., 131 Finsbury Pavement, E.C., 11.00
BOARD MEETINGS
Finals:
Cramphorn
Savage
Interims:
Alexandra Workwear
BLP
HTV
Hi-Tec Sports
London & Manchester
NMW Computers
Porth
QS Hldgs.
S & U Stores
Seafield
Walker Greenbank

■ **WEDNESDAY OCTOBER 10**
COMPANY MEETINGS:
McKay Securities, 20 Parkside, Knightsbridge, S.W., 12.00
Wholesale Fittings, Institute of Electrical Engineers, Savoy Place, W.C., 10.30
BOARD MEETINGS
Finals:
Amstrad
Interims:
Austin Reed
Barlows
Central & Sheerwood
Dauphin
Fitzwilton
Grampian Hldgs.
Lawrence (Walter)
Polymark Intl.
Sinclair (Wm.)
Wensum

■ **THURSDAY OCTOBER 11**
BOARD MEETINGS
Finals:
Microfilm Reprographics
TR Far East Income Tst.
Town Centre Securities
Interims:
BNB Resources
Cohen (A.)
Jerome (S.)
London Atlantic Inv. Tst.
New Ireland Hldgs.

■ **FRIDAY OCTOBER 12**
COMPANY MEETINGS:
Jones, Stroud (Hldgs.), The Donington Thistle Hotel, East Midlands Airport, Castle Donington, Derby, 12.00
BOARD MEETINGS
Interims:
Downiebrae
Geers Gross
Helene
Johnston Group
Slingby (H. C.)

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Aaronson Bros 1.2p
Avesco (Reg.) 1p
Do. (Br.) 1p
BBB Design 2.1p
Bespak 4.4p
British Assets Tst. 0.975p
British Bloodstock Agency 6.3p
Caird 1.2p
Clarke (T.) 1.2p
Clark (Matthew) 7.75p
Macarthy 5p
Midland Bank 7.3p
Vibroplant 2.38p
Wace 2.25p
Ward 0.5p
Warnford Invs. 4p

■ **TOMORROW**
Border Television 1.22p
Bradford & Bingley Bldg. Soc. Fltg. Rate Nts. 1998 £381.23
British Bldg. & Eng. Appliances 1.5p
Enterprise Oil Sub. Fltg. Rate Nts. 1999 £84273.29
Fleming Enterprise Inv. Tst. 2.8p
Jacques Vert 6p
Palmerston Hldgs. 5.75p
Practical Inv. 2.5p
Slough Estates 4.2p
Treatt 1p
Woodchester Invs. 1.26p

■ **WEDNESDAY OCTOBER 10**
Aegis 2.75p
Allied Insurance Brokers 1.5p
Ashtead 2.75p
Britannia Bldg. Soc. Fltg. Rate Nts. 1993 £379.66
Ferrari 9½% Cnv. Red. Prf. 4.0342p
Gardiner 0.375p
Halifax Bldg. Soc. Fltg. Rate Ln. Nts. 1995 £189.04
Invergordon Distillers 2p
M & G Far East & Gen. Fd. 1.5p
Nationwide Anglia Bldg. Soc. Fltg. Nts. 1995 £189.04
Resort Hotels 0.43p
TT 2p
Taylor Woodrow 1.86
Union Bank of Finland Var. Rate Sub. Nts. 2000 $216.26

■ **THURSDAY OCTOBER 11**
Burford 0.4p
Central American Bk. for Econ. Integn. Fltg. Rate Ser. Nts. 1994 $148.43
Conversion 10% 2002 5pc.
EFT 0.3p
Federal Business Dev. Bank 19% Nts. 1990 9.5pc.
Fleming O'seas Inv. Tst. 2.5p
Hongkong & Shanghai Banking Corp. Prim. Cap. Und. Fltg. Rate Nts. 3rd Ser. $108.61
Islington Corp. 12.65% Red. 2007 6.325pc.
Leumi Intl. Invs. NV Gtd. Fltg. Rate Nts. B 1987 (extendable to 1990) $22.04
Lloyds Bank 5p
Marine Midland Fin. NV Gtd. Fltg. Rate Sub. Nts. 1994 $21.88
McKay Securities 3p
Natl. Australia Bk. Und. Sub. Fltg. Rate Nts. $446.06
RBC Intl. Cap. Fd. Red. Prf. 32cts.
Trevian 1.85p
York Waterworks 2p
Do. NV A 2p

■ **FRIDAY OCTOBER 12**
AAF Inv. Corp. 5p
Aerospace Eng. 1.56p
Alliance Tst. 13p
Do. 4¼% Prf. 1.4875p.
Do. 4% Prf. 1.4p
Do. 5% Prf. 1.75p
Appleyard 2.6p
BZW Cnv. Inv. Tst. 3.8p
Bradford & Bingley Bldg. Soc. Fltg. Rate Nts. 1999 £379.66
Courts (Furnishers) 3.17p
Crown Eyeglass 3p
EBC 3.5p
Five Arrows Chile Fd. 25cts.
Genbel Invs. 15.5cts.
Greggs 4.5p
Halifax Bldg. Soc. Fltg. Rate Nts. 1995 £379.66
Ireland 12½% Ln. (Reg.) 2008 6.25pc.
Jones, Stroud 5p
Lec Refrigeration 4p
Lloyds Abbey Life 6p
Macfarlane (Clansman) 1.702p
Mallett 2p
Renaissance 1.3p
Shorco 2.4p
Stirling 1p
YRM 3.35p

■ **SATURDAY OCTOBER 13**
Treasury 8% Ln. 1992 4pc.
Do. 9% Ln. 2008 4.5pc.

■ **SUNDAY OCTOBER 14**
Australia (Commonwealth of) 9½% Ln. (Reg.) 2012 4.75pc.

APPOINTMENTS

Moves at Northern Rock

■ Mr Chris Jobe has been appointed secretary of NORTHERN ROCK BUILDING SOCIETY, Newcastle upon Tyne. He has been chief solicitor since 1983. Mr David Noble becomes general manager of the information technology division. Mr Colin Taylor has been made solicitor to the Society.

■ Mr Michael W. Powell has been appointed executive chairman of the UMI GROUP. He is a former chairman of Foxboro Great Britain.

■ MALVERN UK INDEX TRUST has appointed Mr R.N. Young and Mr I.C. Menzies as directors.

■ Mr David W. Allan has been promoted to managing director of JOHN FOSTER & SON, Bradford. He was sales and marketing director, and succeeds Mr Harold Harvey who has resigned.

■ COPYSTATIC, the Nottingham-based group of information technology companies, has appointed Mr Mark Wilton as finance director. He was formerly with Touche Ross.

■ SENIOR ENGINEERING GROUP, Rickmansworth, has appointed Mr David Cotterill to the board with responsibility for construction services and mining equipment. He was managing director of the international division of Fenner.

■ Mr Patrick Phillips, a director of Barclays de Zoete Wedd Securities, has been appointed to the council of the INTERNATIONAL STOCK EXCHANGE, following the resignation of Mr Kenneth Sinclair.

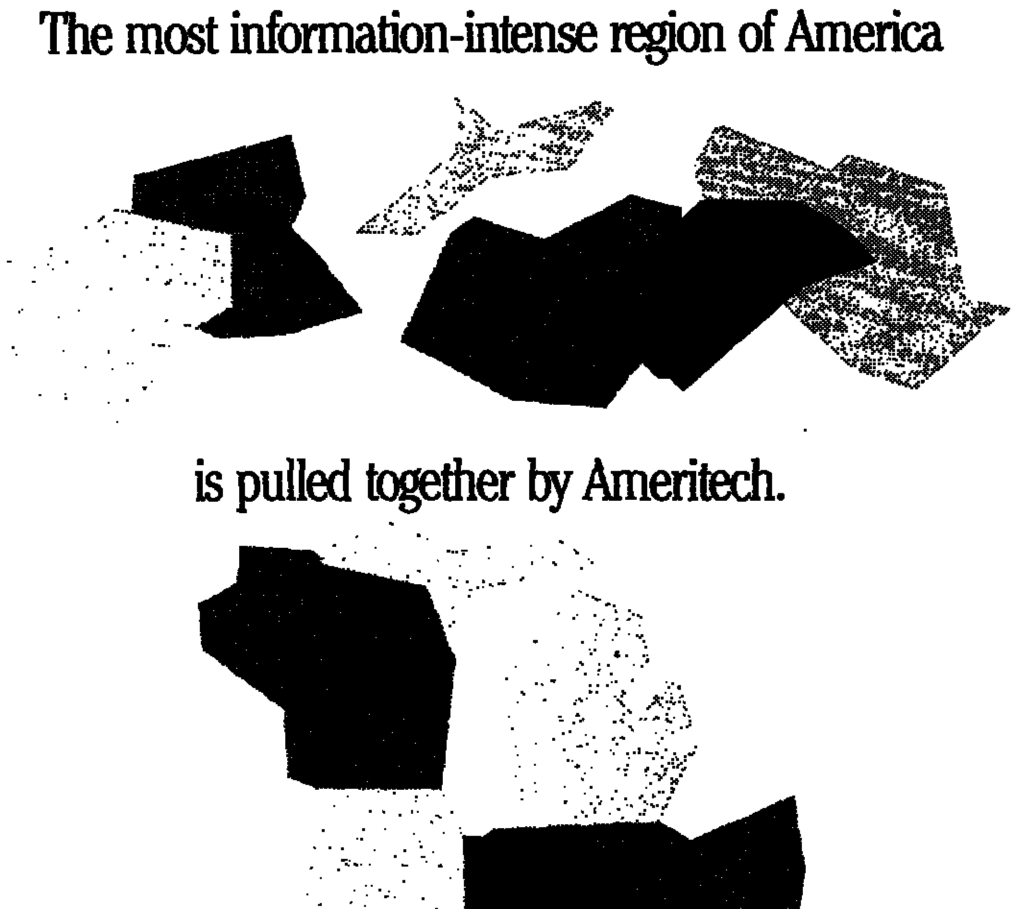
■ C.E. HEATH GROUP has made the following appointments: Mrs T. Taher-Zadeh and Mr A.R. Aubrey as directors of C.E. Heath (Latin America); Mr N. Wetman as deputy managing director of C.E. Heath (Aviation); and Mr I. Savill as associate director of C.E. Heath (Aviation Reinsurance Broking).

■ Mr Crispian Wilson has been appointed to the board of B. ELLIOTT as managing director, operations, from today. He was director, power transmission division, J.H. Fenner & Co (Holdings).

■ Mr Kenneth Lamacraft has been appointed managing director of the LANCASTER GROUP in the UK and Ireland. The company, which markets cosmetics and fragrances, is part of Jon A. Benckiser, Ludwigshafen. Mr Lamacraft was managing director, UK and Ireland, for Christian Dior.

■ SANDERSON ELECTRONICS, Sheffield, has appointed Mr Paul Morigi, president of Paul Morigi & Co Inc, Wall Street stockbroker, to the board of 55% owned General Automation Inc. Sanderson Computers, a principal trading company, has appointed Mr Philip Noden as managing director. He was technical director and takes over from Mr Paul Thompson who continues as chairman. Mr Peter Carroll becomes technical director; Mr Graham Depledge is made commercial systems director; and Mr David O'Byrne becomes public sector systems director.

GROSVENOR LAING URBAN ENTERPRISE, a joint venture between Grosvenor Estate and John Laing, has promoted Mr Philip Wilbourn (pictured) from development manager to development director. The company was formed to develop managed workspace for small businesses in inner city areas.



TRADE FAIRS, EXHIBITIONS & CONFERENCES

CONFERENCES

OCTOBER 15-16
Product Strategies for the 90s. Hotel InterContinental, London. Enquiries: Financial Times Conference Organisation. Tel: 071-925 2323 Fax: 071-925 2125
LONDON

OCTOBER 16-18
Comex 90. Mobile Communications Exhibition and Conference. Telford Exhibition Centre. Tel: 44(0)81-7783343
TELFORD

OCTOBER 17-19
INTERMODAL 90: an International event for the intermodal and container industries comprising three dedicated conferences, together with an extensive exhibition of related equipment and services. Held at the ICC Berlin. Contact: CS Publications ltd Tel: 081-330 3911 Fax: 081-330 5112
LONDON

OCTOBER 17-19
Capital Markets Workshops. Price Waterhouse Training Centre, London. Enquiries: Financial Times Conference Organisation. Tel: 071-925 2323 Fax: 071-925 2125
LONDON

OCTOBER 23-26
Building 90. London's exhibition for the construction industry. Organisers: London Building Exhibitions Ltd. Contact: Stephen Cornick Tel: 071-486 1951/487 5831 Fax: 071-487 3260.
EARLS COURT, LONDON

OCTOBER 23-24
Buy Outs - Their Future. Hotel Intercontinental, London. Enquiries: Financial Times Conference Organisation. Tel: 071-925 2323 Fax: 071-925 2125
LONDON

OCTOBER 24
The Power of Strategic Alliances with Dr Jordan D. Lewis. This seminar is based on his widely acclaimed book "Partnerships for Profit" - Structuring and Managing Strategic Alliances. Cavendish Hotel, London. Contact: Anne McClean, Management Forum Ltd Tel: (0483 570099
LONDON

OCTOBER 25-26
The Future for Global Interest Rates & The Effect of Sterling Entry Into The ERM. Speakers from The Bundesbank & The Bank of England. Contact: Nadja Hawes, Business Research International. Tel: 071-637 4383
LONDON

OCTOBER 29
The Market For Smaller Company Shares - What is the Future? The Tower Thistle Hotel, London E1. Organised by Financial Conferences Division, International Business Communications Ltd. Tel: 071-637 4383
LONDON

NOVEMBER 1&2
Nov 1: Directors + Officers Liability. Nov 2: Professional Indemnity. Two one-day conferences organised by IBC Financial Focus, at the Tower Hotel, London E1. A reduced rate is offered for attendance at both conferences. Contact: Cindy Elliot-West/Peter Russell. Tel: 071-637 4383
LONDON

NOVEMBER 5
Global Networking For The Investment Industry. The City Conference Centre, London EC3. Organised by Financial Conferences Division, International Business Communication Ltd. Tel 071-637 4383.
LONDON

NOVEMBER 5-7
4th International Conference on Isostatic Pressing. A conference on the production of advanced materials (PM, castings, ceramics, metal matrix composites, superconductors etc). Tel: 0743 64675 Fax: 0743 62968
STRATFORD-UPON-AVON

NOVEMBER 8
A one day conference on Computing Beyond 2000 - The Sixth Generation. Portman InterContinental Hotel, London. Contact: Amanda Stuart, IBC Technical Services Ltd. Tel: 071 236 4080
LONDON

NOVEMBER 9-10
The U.S.M. Magazine presents: The Price Waterhouse International Second Market Conference. Contact: Susie Hall:- 071-606 2021. QUEEN ELIZABETH II Conference Centre London.
LONDON

NOVEMBER 16
Futures and Forward Markets, Swaps and Options. Which Way Forward? Contact: Caroline Little Tel: 071-636 1004
LONDON

NOVEMBER 28-29
Improving Cost Efficiency In The Retail Trades. Practical suggestions from experts on: "the achievement of Cost Efficiencies in the Retail Trades with short-term paybacks over a 12-24 month period." New Connaught Rooms, London. Contact: Spectra Retail Concepts Ltd. Tel: 0734-320177
LONDON

NOVEMBER 29
TAURUS: New Developments and Implementations Plans. The London Press Centre, London EC4. Organised by Financial Conferences Division, International Business Communication Ltd. Tel: 071-637 4383.
LONDON

DECEMBER 3-4
International Securitisation. Participation from The Bank of England and Commission Bancaire. Case study from Goldman Sachs. The Selfridge Hotel, London. Contact: Nadja Hawes, Business Research International. Tel: 071-637 4383
LONDON

DECEMBER 5
International Pay Policies Conference. Gloucester Hotel, SW7. Speakers from: CBI, TUC, NEDO, ILO, PW and LSE. £175+VAT. Public Finance Foundation (071-895 8823 Ext. 239/255)
LONDON

DECEMBER 6-7
Digital versus IBM - a two day conference. New perspectives and independent guidance for senior managers. Kensington Park Hotel, London. Contact: Lucinda Tosh, IBC Technical Services Ltd. Tel: 071-236 4080
LONDON

DECEMBER 6-7
US Private Placements. Including case studies from: BAe, CGE and Huhtamaki Oy. The Selfridge Hotel, London. Contact: Nadja Hawes, Business Research International. Tel: 071-637 4383
LONDON

DECEMBER 7
CAPITAL PEOPLE. The 1st European Conference on Human Resource Strategies in Financial Services. Tel: Lynn Brook, Touchstone Exhibitions & Conferences Ltd 081-840 3888
LONDON

OVERSEAS

OCTOBER 24-25
International Conference on EFTPOS: TARGET 1992. Intercontinental Hotel, Geneva. Contact: Amanda Stuart, IBC Technical Services Ltd. Tel: 071-236 4080
GENEVA

NOVEMBER 13-14
International Conference on the Automotive Industry and the Environment. Intercontinental Hotel. Contact: Helen Corey, Environmental Matters Ltd. Tel: (44-71)2241876)
GENEVA

To advertise in this section please telephone Mark Hall-Smith 071-873 3580

Gandy's watercolour impression of Soane's proposed east front of Dulwich Picture Gallery which the gallery is about to purchase

The difficulties of meeting Soane's challenge

Colin Amery is in no doubt that leading international architects would rise to the occasion

I have spent several hours this week in a damp marquee in a suburban garden. The organisers of the Country Life – Dulwich Art Gallery architectural competition put on show in the grounds of the gallery the entire spread of 377 entries. At weekends this display has aroused great public interest, although it has to be said that in the week only a few visitors join the swarms of "daddy-long-legs" that seem to be drawn to the curling drawings in the two large tents.

Competitions always cause controversy and disappointment and the Dulwich one is no exception. Since I wrote about the results a little while ago, letters to this newspaper and in other places have expressed strong feelings about the role of critics and have attempted to judge critical reactions in the light of some imaginary "battle of the styles". I, and other writers, have been accused of "lofty disapproval", of being "self-appointed keepers of the Soane faith", of not encouraging the young and "yet to come to terms with modernism." All this debate and interest can only be seen as A Good Thing...

But the polarising of the debate according to an entirely imaginary "Classical versus Modern" agenda, completely misses the main point. Why are the winning schemes at the Dulwich competition so very disappointing? And why would it be a sad and missed opportunity if any of them were actually built? To make a considered and sensible judgment on these points, and indeed to test one's own critical abilities in exactly the same way as the judges had to do, I felt it essential both to look at all the entries and to talk further to the Gallery itself.

First of all, I had another good look at the site and pondered the particular strangeness of Sir John Soane's 1811 design for the Dulwich Gallery. We know that Soane saw his Dulwich commission as a unique chance to commemorate his friend Sir Francis Bourgeois with a fine mausoleum and a gallery for his bequest. We also now know that Soane was obsessed by "the furniture of death" and that it was the combination of a mausoleum and an art gallery that particularly attracted him. It was one of Soane's most personal works. He did not charge any fees for the design and when there seemed to be some financial crisis was willing to pay for the completion of the building himself.

Soane rejoiced in the opportunity to build a monument in a rural and picturesque setting. He also celebrated the opportunity of combining his ideas and feelings about art, life and death in one building. It is the sublime realisation of Romantic ideas about death and its transcendental quality. Soane wanted us, the visitor, to realise the presence of death alongside the brilliantly lit bright spaces and their display of mankind's finest creations – works of art. The gallery and mausoleum symbolise the complete infinite and finite circle of life. A visit to Dulwich should be an almost religious experience.

This is the background against which competitors were asked to add the more mundane requirements of a brief that wants to turn Dulwich into an ordinary modern gallery with public lavatories, cafe, the inevitable shop and an all-purpose room with the strangely combined function of darkened lecture theatre and well-lit exhibition hall. It is a difficult brief and the organisers were wise enough to say that they were just looking for ideas and would feel no commitment to build anything.

It is because Soane's ideas were so profound for Dulwich that the Gallery director, Giles Waterfield, should have invited some of the best architects in the world (many of whom claim direct inspiration from Soane) to submit ideas. Waterfield claims that this would have been too expensive. I claim it would have been a better use of his sponsor's money and, after all, it is normal to ask architects to pay a premium to enter a competition and there is no doubt that many leading architects would willingly have paid to have the chance to build next to Soane's masterpiece. And Country Life would have had the honour not of promoting an indifferent free-for-all but of sponsoring the work of the world's best architects.

Of the 377 schemes on view there are probably only 50 that reach a good enough standard to be shortlisted. As this was an ideas competition it would have been fairer of the judges to have made a more catholic selection for commendation and included some of the classical schemes – several of which were very carefully planned, and some were ingenious. I can see how hard it was to chose a winner because the general standard was so low. Many of the schemes were simply too dominant and overbearing, which must have driven the judges down the route of ultra-caution when selecting the almost invisible winner.

And yet they singled out as their third prize winner a very powerful pavilion that looked as though it had been designed for the Festival of Britain.

Because of all the critical furore the Gallery and Country Life feel more determined than ever, naturally enough, to back their three winners. I realise now that the winner (Zetek, O'Neill and Grasby) was chosen because it tucks out of site the spaces the gallery needs and could probably be built without upsetting too many of the neighbours in this exceptionally sensitive site. It shows that the Gallery was so confused about what it wants that it has settled for almost nothing. It wanted the publicity and razzamatazz of an architectural competition (it got that!) but has neither the funds nor the planning confidence to promote an internationally significant building.

I understand that the 9H Gallery in central London is contemplating a show of some of the Dulwich entries. Perhaps it would be wiser to continue the debate and show the winners alongside some newly invited entries from Rafael Moneo, Arata Isozaki, Eric Parry, John Outram, and James Stirling to name but five. Soane's Dulwich Picture Gallery is much too important to be saddled with the result of an inept competition.

Opening of Glasgow's new concert hall

Even before a note of music has been heard in it, Glasgow's new concert hall has changed its name. After a year of being advertised as the Glasgow International Concert Hall, it mysteriously turned into the Glasgow Royal Concert Hall on the opening night last Friday, presumably in commemoration of its royal inauguration.

In all important respects the city can consider itself well pleased. In its prominent position, close to the Theatre Royal and Royal Scottish Academy of Music and Drama, the concert hall will serve to enhance what is now clearly the artistic quarter of the metropolis.

Of itself, the building does not offer any visual adornment to the area. The exterior is utilitarian and projects a disappointingly bleak aspect at the back on to Sauchiehall Street, Glasgow's premier shopping area. (Surely there could have been some kind of contact between the audience in the hall's foyers and the bustling crowds outside?) But once one has passed through the ostentatious front portico, there is little but pleasure in store.

This is the late 20th-century concert hall at its most accommodating and impressive. The foyers are spacious; there are sufficient bars and restaurants. And the whole of the interior has been designed, apparently at no small cost, with a fine sense of style.

My one regret is that the display of Scottish paintings, which adds such a welcome feeling of artistic richness as one enters, is only on loan for a few months. It should be permanent.

According to figures in the programme the auditorium itself seats 2,500, though one would hardly realise it. The audience is seated on three sides of a shoe-box, so that most people will be close to, or overlooking, the platform – good for the posture too, as the seats keep you sitting firmly upright. Sight-lines in general are reasonable, but reports on the first night suggested that the acoustics vary enormously around the hall. From my place, in the first tier at the side, the sound was remarkably open and generous. Almost too much so, I felt at first, as the Straussian opulence of Thomas Wilson's Glaswegian tone-poem *Carillon* seemed to engulf the listener in a wide, Cinerama-type sound.

This was one of two Glasgow 1990 commissions for the gala opening concert, which quite rightly kept the emphasis on Scottish music and musicians. The other was a most effective, short orchestral piece entitled *Rainbow* by Thea Musgrave, which investigated the tonal possibilities of a large orchestra and served to confirm the wide range of dynamics and colour the hall allows.

The rest of the programme included Liszt's Second Piano Concerto and a less than ecstatic performance of Beethoven's *Choral Fantasia*, in which David Horne, the sturdy Fife-born pianist, was joined by the Scottish National Orchestra and Chorus under Bryden Thomson. By that time I was quite decided that I wanted a clearer, single focus to the orchestral sound; but after the many disasters with acoustics in new concert halls, both in this country and overseas, that is perhaps a minor complaint.

The good news is that Glasgow has furnished itself with a really fine new centre for music. Just as the Festival Hall in London remains from the Festival of Britain, so the Glasgow Royal Concert Hall will stand as a permanent reminder of the enormous effort the city has put into making its year as Cultural Capital of Europe a success.

Richard Fairman

The Old Law

STUDIO, LYRIC HAMMERSMITH

There is an excellent production of *The Old Law* by Thomas Middleton and William Rowley at the Lyric Studio in Hammersmith, which I am glad to report had an almost full house on Saturday evening.

You may be forgiven for not knowing much about the play. According to a programme note, it has not been performed on stage for more than 300 years, and it is not easy to find a copy of the text.

Briefly, it can be described as Jacobean satire or as a kind of comic *King Lear*, for it is about the outlawing of old age and the purge of the gerontocracy, although it has a happy ending where nearly all is forgiven.

Middleton is best known for his tragedies, *The Changeling*, on which he collaborated with Rowley, and *Women Beware Women*. Rowley was a great collaborator. He had his hand in about 50 plays of the period. That has sometimes led to his being called a hack; I prefer the term "professional".

It is also sometimes said that since Shakespeare was so far above his contemporaries, most of the other plays of the period are of mainly academic interest. My own view is that it is both helpful and enjoyable to take Shakespeare and his contemporaries together because they illuminate each other and, after all, they use the same conventions.

Certainly that is the conclusion from *The Old Law*. The allusions to *King Lear* are unmistakable. There are also references to *Dr Faustus* and the idea of time running out. Indeed the whole canon of Elizabethan and Jacobean drama is there in one form or another, not least the contempt for the equivocations of the law.

The Hammersmith production is by the Commonweal Theatre Company and directed by Tony Hegarty. As a company, it has a multitude of talent, most notably Max Hafler playing Creon and Iona Kennedy as Eugenia.

The direction is also full of ideas. A traditional fencing scene is played very effectively without weapons, and a drinking/sconcing scene without tankards. It works. Nearly all the minor parts come off, especially the sycophantic courtiers.

The one reservation is that the production would gain from being cut by about 20 minutes; otherwise it is a wholly rewarding evening.

The future of the Lyric Hammersmith, incidentally, is in some jeopardy as a result of the combination of the poll tax, local authority cuts and the changed policy of the Arts Council.

I do not think that all theatres ought to be saved merely because they are theatres. The Lyric, however, like the Young Vic which is also in difficulties, is an exception. Apart from its memorable productions, it has some of the pleasantest amenities you will find in a theatre. It should be supported.

The Old Law runs until October 27.

Malcolm Rutherford

The Devil's Virtuoso

REDGRAVE THEATRE, FARNHAM

The good people of Farnham, friendly, prosperous and theatre loving, are led a merry dance by Ian Taylor in his new play, *The Devil's Virtuoso*, which re-tells the life of that pop superstar of the early 19th century, Paganini. So other worldly was Paganini's violin playing that he was reckoned to have made a pact with the Devil.

This becomes the *alpha* and *omega* of Taylor's play and enables director Graham Watkins to set it in "An Illusionist's Theatre in Limbo". The conceit is taken to the limit and poor Christopher Ashley as Paganini is forced to perform really dire magic tricks to satisfy the production's meddling with the mystic.

There was a genuine mystery – Paganini was refused a Christian burial for five years – but there are many more fascinating aspects to his character to explore than the theory that, encouraged by his manager, he was a Satanist. The fact that he never touched a violin except when he was performing is much more amazing.

Still, take it all as a romp and it is quite jolly, thanks mainly to the music which ranges from some of Paganini's devilishly intricate compositions to folk songs of his native Genoa.

The chief trick is the ability of Ashley to convince the audience that he is a violin virtuoso: by clever direction, and help from the wings, he carries off a musical coup. His portrayal of Paganini as a louche cockney raises a few hackles but has some historical justification.

Six actors assume countless roles. Taylor seems fond of black underwear and Zoe Dickinson and Karen-Jane Tomlinson are for ever slipping into something slinky. Taylor is also good on Paganini's youth as a prodigy, but seems to lose interest after he becomes an international celebrity. There is nothing about his contemporaries (Schubert commented on his playing: "I heard an angel sing"); nothing about his spectacular bankruptcy; nothing about his illness, which transformed his appearance for the worse, making him physically devilish looking.

For the finale there is a theme that could have been exploited more energetically – Ashley and the cast become modern rock stars, bashing out Paganini cadenzas.

Of course the devilry allows some good tableaux, especially the opening scene where Paganini's son is discovered arguing with the Church over a rotting corpse, and throughout the staging is an imaginative box of tricks for a regional theatre. But, in what is basically a safe run through of a famous life, it would have been better to show Paganini whole rather than Paganini coloured. Julian Forsyth, Philip Dupuy, and Michael G. Jones are assorted princes, lawyers, and other crooks.

Antony Thorncroft

Turandot

COVENT GARDEN

As the third cast for this revival of *Turandot* took the stage, it is remarkable to consider how unfailingly satisfying this production has been over the past six years. Every time it is put on, the opera seems just as magical and involving, as cruelly disturbing below the surface, as it did the time before, no matter who is singing.

With so many revivals, it has served to welcome a long line of visiting stars. Singers such as Dimitrova and Marton, for example, have used the title-role to show off voices of remarkable amplitude.

To follow them, let alone Gwyneth Jones, the production's original Turandot, is no easy task; but the Bulgarian soprano Galina Savova, in her Royal Opera debut on Saturday, brought with her a voice of striking colours and just enough power.

Appropriately for Turandot and her riddles, she kept the audience guessing. One never quite knew what was coming next, as words would suddenly flash out with new meaning and notes that were easily within her grasp could still be unpredictable (the climax of "In questa reggia" was just under). But similarly, in a wholly positive way, the drama was kept at a high level of expectancy: Savova's is a live and always interesting Turandot.

By pairing her with the tenor Nicola Martinucci, the performance gave us a leading couple of opposite virtues. Martinucci is predictable above all, with a fine, Italianate voice that never lets him down, deserving of the noisy ovation that he won; but he makes an uninteresting stage personality, a Calaf without ardour or heroism, or even stock Italian-tenor histrionics.

Nor did one's heart go out to the Liù of Lucia Mazzaria-Scandiuzzi, brightly and capably though she sang.

Nevertheless, the opera worked and powerfully so, partly no doubt thanks to the immense climaxes built up by Colin Davis in the pit. This is a production that you can see again and again without it dwindling in impact at all. While the Royal Opera has such a *Turandot* to offer, it is difficult to complain when they put it before the public so often.

Richard Fairman

Monteverdi Choir

BARBICAN HALL

With one bound John Eliot Gardiner has leap-frogged his rivals. While the other conductors involved in the period instrument movement are moving steadily through the early romantics, Eliot Gardiner has audaciously jumped ahead to the *German Requiem* of Brahms, that most unlikely of works to be heard in an "authentic" performance. Next month the Monteverdi Choir will follow up with the unaccompanied choral music.

In music as comparatively recent as this it is difficult to know how great a difference to expect, if it is performed on instruments of the period. In Thursday's concert the most noticeable effects were those of acidic strings and hard-struck timpani, now commonplace in performances of baroque and classical music.

Were the English Baroque Soloists using their usual instruments, or later ones to suit the period (1868)? On that point the programme did not furnish any details. A brief introduction by Eliot Gardiner did, however, express an intention to do away with the *German Requiem's* "prevailing dinginess of texture" and in that he can claim total success.

There is simply no comparison in bearing music such as this or the *Schicksalslied* performed by a large, wheezy, amateur chorus and the super-professional Monteverdi Choir with their razor-sharp attack and projection sure as a bullet.

Movement after movement unveiled choral marvels. This was not Eliot Gardiner hurling forth at headlong speed, as previously when he and his singers tackled Beethoven's *Missa Solemnis*; but a measured and serious reading, outstanding above all for the iron clamp in which the conductor seems to grip all his performers. Eliot Gardiner presided here with dictatorial control over the exact weight, colour and timing of every syllable.

In the forthcoming recording the performance might prove too studied for repeated listening. Against that the sheer technical perfection will be just as breathtaking and there are highly recommendable soloists in the beautiful soprano of Charlotte Margiono and in the baritone Rodney Gilfry, who sang with easy dignity in his solos. In sum, a gripping performance: not a verdict that can often have been passed on this work.

Richard Fairman

OBITUARY

Jill Bennett

Jill Bennett, who died last week aged 58, was born on Christmas Eve, 1931. She had wealthy parents, and it may have been this that lent, both to her playing and her life in general, a feeling that most of what happened to her was contrived by herself. She had barely left school, in Stratford-upon-Avon, when she began to play small parts for the Shakespeare Memorial Company. At 18, she fell in love with its 60-year-old director, Sir Godfrey Tearle, and in spite of disapproval stayed so until his death four years later.

The Shakespeare company was followed by Olivier's company at the St James's, with whom she gave Anni in *Captain Carvallo*, and Iras in both *Antony and Cleopatra* and *Caesar and Cleopatra*. Thence she followed the prescribed route for a successful young actress, to Hollywood, though her looks were piquant rather than beautiful. She starred in some unmemorable films and returned to England, able now to take important parts. She was Masha in John Clements's *Seagull* in 1956, and joined the Oxford Playhouse company under Frank Hauser. In 1962 she married Willis Hall, in whose work she had appeared at the Royal Court.

At the Court, she played the Russian Countess in John Osborne's *A Patriot for Me*, a part she adorned beyond its proper worth, and her work centred around that house for some time. The marriage with Hall lasted only until 1965, and in 1968 she married Osborne, who created Pamela for her in *Time Present* – virtually a monologue where she might mourn a dying actor-father, resent her unsympathetic relations and resolve how to live the next part of her life.

This assorted emotion was mainly expressed in trivial theatre camp, and the resourceful technique with which she carried it won her the Evening Standard award for best actress.

The Osborne period also included a very fine Hedda in his version of *Hedda Gabler*, but from that she moved to a brand of comedy which she played well but not often, Amanda in *Private Lives*. She was in two more Osborne plays, but she was turning to more conventional ground, in *Flare Path*, *The Aspern Papers* and *Separate Tables*. The marriage ended in 1977.

In the Royal Court's *Hamlet* she was a Gertrude of universal sympathy. As in so many other parts, she gave the feeling that she had invented it herself, for she could urge sympathy over difficult fences. In Donald Howarth's *Three Months Gone*, her Anna, her joys habitually checked, managed the rarest of smiles now and then to illuminate a good thought.

Petite and charming, she was always an active outdoor woman. After the end of her first marriage, she was lunching at a Chelsea restaurant with a bunch of roses on her table. "My husband always bought me roses on this day," she explained. "Now he doesn't, I get my own to keep the feeling."

B.A. Young

ARTS GUIDE

October 8-11

MUSIC

London

Dmitri Hvorostovsky (baritone) with Mikhail Arcadiev (piano). Monteverdi, Pergolesi, Caccini, Stradella, Bellini, Donizetti. Queen Elizabeth Hall (Mon) (071 928 3191; cc 071 928 8800).
Royal Philharmonic Orchestra conducted by Sir Yehudi Menuhin, with Julian Lloyd Webber (cello), soloists and choir. Gersgwin, Elgar, Lloyd Webber. Royal Festival Hall (Wed) (071 928 8800).

Paris

Orchestre Colonne conducted by Klaus Weise, Trio Henry. Beethoven (Mon). Salle Pleyel (45638873).
Nicolai Gedda recital (Mon). Salle Gaveau (49530507).
Quatuor Sine Nomine (Tue). Salle Gaveau (49530507).
Orchestre de Paris conducted by Semyon Bychkov, with Anne-Sophie Mutter (violin). Kodaly, Mozart, Stravinsky (Wed, Thur) Salle Pleyel (45638873).

Amsterdam

Netherlands Philharmonic with Theodora Geraets (violin), James Loughran conducting. Dvorak, Vaughan Williams, Elgar (Fri). Concertgebouw (718 345).
Musica Antiqua Köln under Reinhard Goebel. Telemann, Bach, (Mon). Concertgebouw (718 345).
Netherlands Philharmonic with Maxim Vengerov (violin), James Loughran conducting. Berlioz, Tchaikovsky, Sibelius (Wed, Thur). Concertgebouw (718 345).

Utrecht

Andrei Gavrilov (piano). Mozart, Hadyn, Beethoven (Tue). Vredenburg (31 45 44).

Brussels

Philippe Hirschhorn (violin) and David Golub (piano) in a Programme of Franck, Prokofiev and Schubert. Palais des Beaux-Arts (Mon).
Paul Dombrecht Consort in a programme of Bach, Couperin, Mattaes, Philidor, Rameau, Telemann. Musées Royaux d'Art et d'Histoire (Wed).
National Symphony Orchestra conducted by Mstislav Rostropovitch performing Barber, Shostakovitch and Tchaikowsky. Palais des Beaux-Arts (Thur).

Antwerp

Andreas Schmidt (baritone) accompanied by Roger Vignoles (piano) performs Brahms's Die *Schöne Magelone* (Wed). De Singel (03-248 38 00).

Gent

English Chamber Orchestra conducted by Jeffrey Tate with Mitsuko Uchida (piano) performing Beethoven (Tues) (091-25 77 80).

Frankfurt

Russian Radio Orchestra and singers Lidia Schernikh. Alexander Nenadorsky, conducted by Vladimir Fedoseyev with an all Tchaikovsky programme (Mon, Thurs). Alte Oper.
Russian State Orchestra, and Andrei Korsakov (violin),conducted by Yevgeny Svetlanov in an all Tchaikovsky programme (Wed). Alte Oper.

Berlin

Berlin Opera Orchestra conducted by Guiseppe Sinopoli with Dawn Upshaw (soprano), G. Shaham (violin). *Nono, Mendelssohn* and Ahler (Mon). Schauspielhaus.

New York

Julliard String Quartet. Schubert, Carter, Ravel (Mon). Julliard Theater, Lincoln Center. Free (874 6770)
Czech Philharmonic conducted by Jiri Belohlavek with Andrea Lucchesini (piano) play Martinu, Chopin, Stravinsky (Tue). Carnegie Hall (247 7400)
New York Chamber Symphony conducted by Gerard Schwarz with Misha Dichter (piano) play Diamond, Gershwin, Beethoven (Tue). Kaufmann Hall (996 1100)
New York Philharmonic conducted by Leonard Slatkin with John Browning (piano) play Schuman, Beethoven, Saint-Saens (Wed, Thur). Avery Fisher Hall, Lincoln Center (874 6770).

Washington

Daniel Barenboim piano recital. Bach, Beethoven (Mon). Concert Hall, Kennedy Center (467 4600)
Czech Philharmonic conducted by Jiri Belohlavek with Andrea Lucchesini (piano). Martinu, Chopin, Rimsky-Korsakov (Wed). Concert Hall, Kennedy Center (467 4600)

Chicago

Chicago Symphony Orchestra conducted by Sir Georg Solti play Bartok, Debussy, Shostakovich (Thur). Orchestra Hall (435 3322)

FINANCIAL TIMES
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Monday October 8 1990

Not nearly good enough

THE British government's adherence to the Exchange Rate Mechanism of the European Monetary System indicates that a general election may be held in the summer or autumn of 1991. There is likely to be a further fall in interest rates and a consequent window of political opportunity during the next six to 12 months. This is a reversal of the outlook a week ago, when a strong Labour lead in the opinion polls suggested that the prime minister might have been tempted to wait until the final possible moment in June 1992.

The annual conference of the Conservative party which opens in Bournemouth tomorrow may therefore be the last opportunity for a concerted demonstration that Thatcherism, a success in the early 1980s, has something to offer in the 1990s. Some new thinking is needed.

This certainly applies to the government's present attitude to the European Community. Adherence to the ERM, welcome though it may be, has been grudgingly accepted five years after it was mooted by the former chancellor of the exchequer, Mr Nigel Lawson. The nationalistic phrases accompanying the prime minister's statement on the ERM decision last Friday suggest that the government is likely to prove as unco-operative over further developments of European monetary and political union as it has over every step taken or proposed so far.

Measured pace

Plans to move towards a single currency and a European central bank ought not to be rushed, but the arguments for a measured pace, which will no doubt be put forward by Mrs Thatcher at the EC intergovernmental conference in December, would carry greater weight if the other participants thought that Britain believed in the proposed destination. A few Conservative ministers do, but the sterile debate over "sovereignty" continues to constrain the government. There are signs that the Labour party is sensing this and preparing to seize the opportunity to proclaim a yet more wholehearted Europeanism.

The verdict "not good enough" also applies to a collection of domestic policies, in which the common thread appears to be adherence to the doctrinal purity that seemed to be in the ascendancy after Mrs Thatcher's third election victory in 1987.

Most of the government's privatisations have been a success, but the so-far botched privatisation of electricity will not quickly create greater competitiveness. The sensible development of a core curriculum for schools has been accompanied by structural reforms designed to wrest control from local authorities, but these policies have not been supported by the public expenditure without which teacher morale and educational quality will remain low. Training to reduce unemployment is understood by the government; training for people in work awaits a convincing programme.

Driving force

The indefensible poll tax had the underlying purpose of weakening local authorities; its replacement should follow a single public inquiry into the structure of both local government and the method of financing it. The Tories are considering an extension of the right to buy publicly rented housing; they still shrink from abolishing tax relief on mortgage interest, which distorts the market for credit.

The driving force behind everything the government has done since 1979 has been Mrs Thatcher. This has been of great value, particularly in providing the resolve necessary to curb excessive trade union power, but also in propagating a sense of fiscal prudence within a number of public institutions which in past decades appeared never to have heard of it.

The question now arises whether a party that is so heavily influenced by the instincts of one powerful individual can make the necessary adjustments of direction after a dozen years in power. Unless the Conservatives can demonstrate that they, and their leader, are able to shake off the preconceptions of the 1980s and produce practical policies for developing the competitive strength Britain needs in the 1990s, they will not deserve to win a fourth term.

Still stalling on farm reform

THE ONE positive aspect to the new European Community farm reform proposals is that they exist. That the EC has now spelled out specific plans for reducing the $250bn annual cost of world farm support is a significant step for a trading power which is normally resolute in its determination to lavish vast sums of money on its 10m farmers.

This said, it would be an illusion to believe that the new plan goes far enough to break the log-jam over agriculture in the Uruguay Round of multilateral trade negotiations. The reason lies not so much in the 30 per cent level of cuts suggested by Brussels, although the US is due to propose a higher figure. It is more due to the continuing European refusal to contemplate the specific policy changes demanded by the US.

The plan, which goes before farm and trade ministers in Luxembourg this week, retains the controversial "rebalancing" proposal whereby the Community would be entitled to compensate for cuts in domestic support with increased border protection for feedgrain substitutes, such as oilseeds. It would allow Brussels to protect its farmers against commodity price volatility caused by exchange rate movements. And it still contains no firm commitment to curb export subsidies.

Fierce resistance

EC officials argue that the Bush Administration would face severe difficulty in persuading Congress to accept cuts of even 30 per cent. US dairy farmers and sugar producers would fiercely resist such cuts. Reform would, however, have a much better chance of success if these lobbies could be neutralised by bringing on board the powerful grain and oilseed sectors.

This is why what happens to rebalancing and export subsidies is so important to the US. Its grain exporters badly want a ceiling on EC export subsidies which would help make competition in world markets fairer. Its soybean growers will never accept increased EC protection, which would lock them out of a lucrative export market.

Concessions in these areas would help ensure that real discipline is applied to the Common Agriculture Policy in future. Cash limits on export subsidies would mean that surpluses would have to be either stored or destroyed, at tremendous cost. With no rebalancing, any attempt to hold up the internal price of grain would lead to large imports of feedgrain substitutes, adding further to European over-supply.

Growing demands

The Community should welcome such discipline, given the existing strains in the CAP and growing calls on its budget for regional and structural aid. Agreement to curb export subsidies should also open the door to compensating, and desirable limits to US deficiency payments.

Unfortunately, the stranglehold exerted by Europe's farm lobbies over Mr Ray MacSharry, Farm Commissioner, means that it will be difficult to modify the proposal, unless business groups which have hitherto neglected the role of agriculture in the Round step in to insist on more concessions.

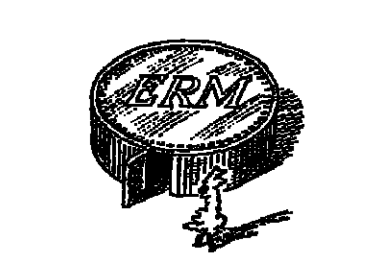
With so much at stake and so little time left, the prospect of a continuing farm impasse is nothing short of alarming.

A larger gesture is called for now, rather than at the last minute in December. What are often derided as concessions in trade talks are indeed, as the OECD declared last week, steps forward on the road to world prosperity. Yet the EC is still approaching farm reform in the absurd spirit of trying to limit reform to the minimum.

The real problem in EC farming is a social one: the plight of smaller farmers whose incomes have fallen despite the best efforts of the CAP. Concentrating assistance on them, instead of the small minority of efficient farmers who receive the bulk of the aid, might render the whole exercise less costly. Even if this makes little economic sense, it would at last become clear what the issue was all about. Europe's voters could then decide whether they really wanted to preserve what is, in effect, a medieval cottage industry.

Martin Wolf considers the route the UK will take towards a more Germanic economy

A long and painful haul lies ahead



The political reasons for the chancellor of the exchequer's decision to put sterling into the exchange rate mechanism of the European Monetary System last Friday are transparent: about two-thirds of UK housing is in owner-occupation, while just 20 per cent of the labour force is employed in manufacturing and at most 40 per cent in sectors subject to some degree of international competition. Any policy that promises both lower interest rates and inflation, combined with a squeeze on jobs and profits in less than half of the economy, looks like the answer to a hard pressed government's prayers.

None the less, over the long haul – presuming, that is, that the British people will abide the long haul – the destination is the same as that of domestic monetarism. If the exchange rate is fixed, inflation must converge upon that in the anchor country. The Bundesbank's target inflation rate for Germany is about 2 per cent, which is a little below the country's average over the 1980s. It is possible that German unification will raise this average more than merely temporarily. It would be unwise to assume it.

The UK must now adopt the policy described by the French as "competitive disinflation". Over the 1980s unit labour costs in German manufacturing rose at 1½ per cent a year. In the UK productivity growth in manufacturing seems to have been some 4½ per cent a year. If that high rate could be sustained (itself unlikely) then wage costs per hour in British manufacturing must ultimately rise by not more than 6 per cent a year, if the exchange rate target is to be combined with steady growth. "Competitive disinflation" would demand wage inflation of 4-5 per cent a year, less than half of today's rate.

The UK authorities may feel forced or, worse, delighted, to lower short term interest rates towards those in the currencies to which sterling is now seen to be firmly linked

When the countryman was asked how to get to Dublin, he replied that the traveller would have done better not to start from where he was. The UK, too, would have done better to start somewhere else. But it has no choice. The period (and the pain) of adjustment must now be as long (and as great) as is required to get from here to there, with "there" defined as steady growth at the UK's underlying rate of 2.5-3 per cent a year, combined with wage inflation running at, or below, 5 per cent a year.

"There" can also be defined more broadly. One central difference between Germany and the UK is the way in which a liberalised UK financial system has generated credit growth during the 1980s. Between 1985 and July 1989 the respective increases in broad money – mainly cash and bank and building society deposits – in Germany and the UK were 37 per cent and 126 per cent, in spite of higher interest rates in the UK. Such differential growth in relative money supplies would normally preclude fixed exchange rates.

Many of the differences – including the propensity to borrow – are the result of the UK's long experience of inflation: to put as much as (or, not infrequently, more than) one can afford in one's house is mere prudence for the Briton, but it is profligacy to the German; in the UK pay bargaining is usually annual, while in Germany wage bargaining occurs less frequently; and in the UK almost all unit trusts invest in equities, while in Germany interest-paying instruments are far more popular.

Most of these differences will diminish, or even disappear, if ERM membership succeeds. But some of them – notably the role of housing and pay bargaining – also make that success more difficult to achieve. The difficulties created by the marks of inflation upon the UK economy are both a part of the problem and the reason for choosing a link to the Bundesbank as the solution.

It is no surprise, therefore, that the chancellor redefined the conditions for entry, to focus on prospective inflation, once convinced of the need to make early ERM entry the basis of his economic policy. Past inflation was certainly no justification, with headline inflation at 10.6 per cent, inflation excluding housing at 7.5 per cent and unit costs in the economy rising at well over 8 per cent a year, even on a cyclically-adjusted basis.

Past inflation was never relevant. The Chancellor was right to ignore it. He was also right to anticipate a sharp slowdown in the economy. All measures of monetary growth have turned down. The personal savings rate has risen from a trough of 4.9 per cent in the third quarter of 1988 back to 7.7 per cent in the second quarter of 1990, while the financial deficit of companies was more than £18bn in the first half of 1990 alone.

The economist's lag is the politician's nightmare. The chancellor has evidently decided that he was compelled to lower interest rates, with ERM entry as cover. While this move is unlikely to ward off a recession altogether, it may help to postpone the worst of it until after an election. It will also change its sectoral impact. But that there will be either a recession or a sustained period of slow growth seems unavoidable. Otherwise, the necessary disinflation will not occur.

Calculations of the exchange rate that will equate the prices of traded goods and services between the two economies (the purchasing power parity exchange rate) generally give figures of well over DM3 to the pound. But the real exchange rate is at least as much an internal price, probably best defined, for an economy like the UK's, as the (efficiency-adjusted) cost of labour in relation to the prices of traded goods and services. The symptoms of overvaluation would then be relatively low profitability in those industries that produce tradeable goods and services, combined with a large current account deficit even though labour is not fully employed.

From the picture of the UK today, it looks as though the real exchange rate may already be overvalued in this sense. Whether it is or not, it must now appreciate progressively within the ERM, unless wage bargainers experience a Damascene conversion. At present, the real appreciation would be about 4 per cent a year, this being the difference between the cyclically-adjusted rate of rise in unit costs in manufacturing in the domestic currencies of Germany and the UK. At this rate the gross profits of British manufacturing industry could be halved in about four years. One must hope that those employed in it realise that they face a doomsday machine.

This squeeze is the mechanical part of the adjustment. What happens in the economy as a whole, however, depends on external shocks (like the price of oil) and expectations. The likelihood is that reactions by investors, especially those engaged in short term trading in foreign exchange and interest-bearing securities, will be different from – and faster than – those of people engaged in business (including here trade unions) and households.

At worst, post-entry expectations might consist of little confidence in long term exchange rate stability, coupled with quite a high degree of confidence in short term stability. The UK authorities may then feel forced (or, worse, delighted) to lower short term interest rates towards those in the currencies to which sterling is now seen to be firmly linked. This would create two problems.

The first is that interest rates are now not as high as they appear, when adjusted for taxes and inflation. After tax, a 40 per cent tax payer will receive a real return of not much above zero, given the underlying rise in the retail price index. If interest rates fall further, that real return might become negative. Yet at the moment, holdings of broad money are equal in value to more than 80 per cent of nominal gross domestic product, up from only 60 per cent five years ago. There is a risk that this liquidity glacier will thaw in the warmth of lower interest rates and melt into a river of increased spending.

The second danger is that of renewed borrowing. Personal finance in the UK is dominated by borrowing against the security of owner-occupied housing at short term rates of interest. Such borrowing, for new purchase and for equity withdrawal, has recently been constrained by the burden imposed by mortgage rates of around 15 per cent. Mortgage rates of, say, 11-12 per cent might prove quite another matter.

With lower interest rates, parts of business will find their prospects transformed. Wage bargainers may find it easier to extort higher wages from companies which do not face any significant international competition. Companies producing tradeable goods and services will be subject to competition in the labour market from those domestically oriented businesses that can afford higher wages and may feel obliged to yield to the pressure.

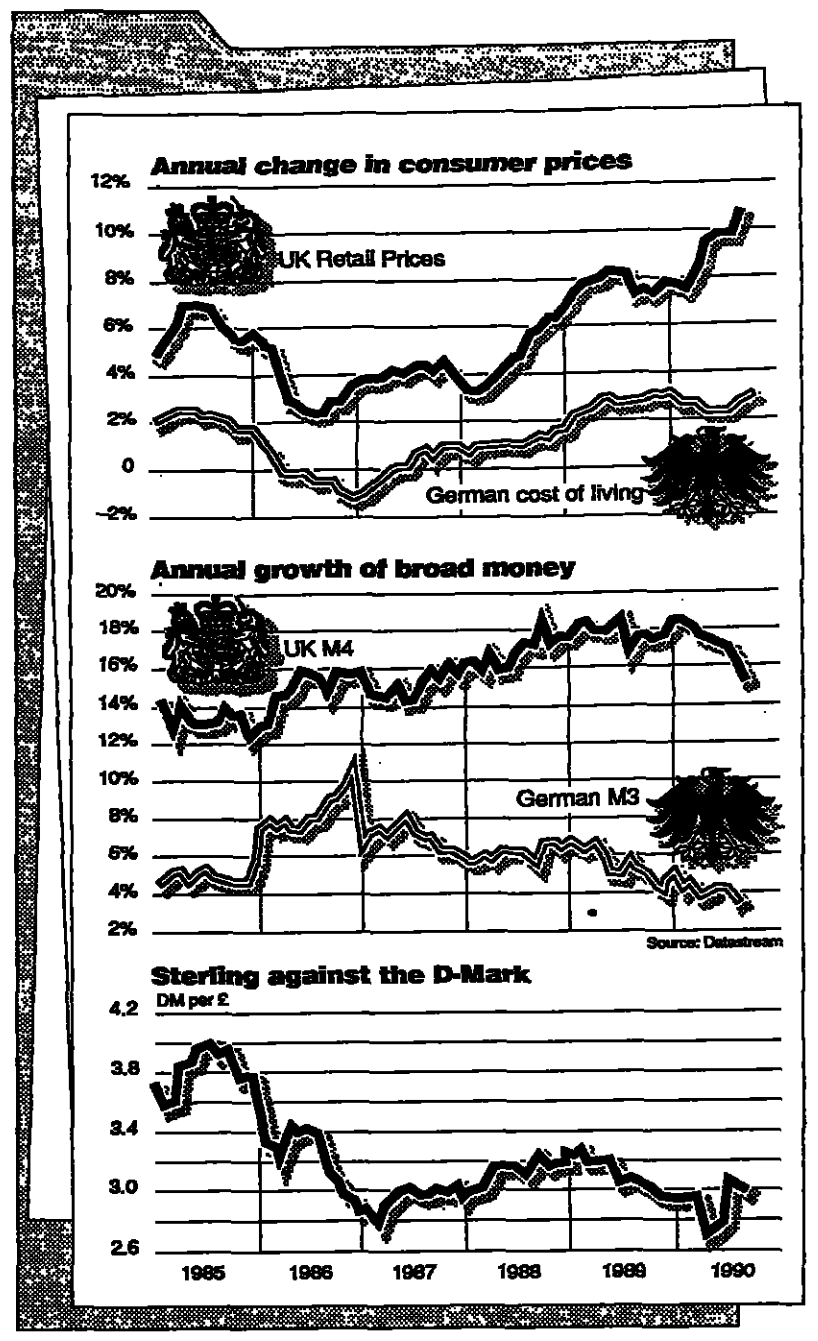
The irresistible force of an unbalanced expansion would then meet a (supposedly) immoveable object, in the form of the fixed exchange rate. What might happen then?

The rising recession in the open sectors of the economy would lead to progressively higher unemployment and, ultimately, lower wage inflation. In addition, the growth in demand would be reduced by a renewed increase in a current account; by reduced demand from those formerly employed in the open sectors of the economy; and, last but not least, by interest rate shocks. For the progress of demand expansion and external account deterioration would not be watched with insouciance. From time to time, investors would demand higher rates of interest to compensate for renewed risk of depreciation.

In short, a fixed exchange rate would, indeed, force the rate of inflation down. But the price could be a violent stop-go cycle. This "go-stop-go" approach to disinflation is a nightmare. No sensible government should tolerate it, however electorally convenient the initial "go" phase may seem.

The solutions are, above all, to resist excessive downward pressure on interest rates and to withdraw the incentives for borrowing and lending, notably those affecting the housing market. The less desirable alternatives – to which the government may find itself ultimately reduced – would be to suppress the symptoms of divergent expectations, the path chosen by France, which used wage, exchange and credit controls during its transitional period or to consider offsetting action, most obviously in fiscal policy.

There is the light of a more Germanic economy at the end of the tunnel. But the passage will be long. In the five years from 1983 and 1987 the French economy grew on average at 1.6 per cent a year, with rising unemployment throughout. That is likely to be the fate in store for the UK. If the government were unwise enough to embrace rapid further reduction in rates of interest over the next few months, it might put another, near term light into the tunnel, that of an election victory. But, for the economy, this light would merely signal ultimate collision with the locomotive of a still more brutal "stop" than the one now being experienced. The government must be more responsible than to attempt short term exploitation of what should, instead, be a long term policy.



OBSERVER

Champagne at Bank

■ Officials at the Bank of England and Treasury are justly proud at how they managed to keep news of Britain's entry into the EMS exchange rate mechanism a secret last Friday until the witching hour of four o'clock in the afternoon.

At that precise moment the wonders of electronic news management swung into play. Identical details were released simultaneously onto City screens via Reuters, AP-Dow Jones, Knight Ridder, and the Stock Exchange's Topic service. "To coincide with the chimes of Big Ben", an official explained later.

But this highly-charged atmosphere had some strange effects in the Bank of England press office. As the news was being given by an old-fashioned telephone message to the Financial Times, a mighty bang was heard in the background.

It was a celebration bottle of champagne belonging to press officer Penelope Thain, which apparently had burst open entirely of its own accord.

The need for strict secrecy on ERM entry has been occupying great minds at 10 Downing Street and the Treasury for months. At one point the authorities in Spain were consulted – in great secrecy, needless to say.

How had Madrid managed to avoid leaks? "Simple" the British were told, "The prime minister and the finance minister did not even tell anyone else in the cabinet when they joined last year."

Dry run?

■ Everyone was caught by the two-headed projectile of base rate cut and ERM entry that John Major delivered with such impeccable political timing last Friday. But it did not come wholly out of the blue.

Although the markets rocketed at the Treasury news they did so with a distinct sense of going round a familiar course. For ERM rumours of weekend entry have beset Friday trading for months. Indeed many market participants and economists believe that Britain went through the motions of joining the ERM on Friday August 31. It could have been either a serious attempt – or a dry run for last Friday.

Traders swear that the Bank of England was in the foreign exchange market on that Friday afternoon, driving the pound down from around DM3 towards a desired entry level of DM2.95 – the very rate agreed by the EC's monetary committee this weekend. The Bank managed to sell the pound down to DM2.9650 on August 31. But there it stuck.

As for the base rate cut, the markets also then had wind that ERM entry at that rate would mean a likely one percentage point trim.

But the Bank of England was considering cutting interest rates as long as four weeks ago, ERM entry or no ERM entry. Eddie George, the Bank's deputy governor, invited two top City economists to lunch last month. He left them guessing over the Bank's grilled salmon as to what pressing economic topic of the day he wanted to pick their brains about.

It was not until coffee that he asked the two – from Swiss- and US-owned banks – whether the Bank should spare industry the rod and cut interest rates then and there. Both argued against it.

But now only one of the two economists is still publicly arguing that ERM entry and the base rate cut has come at the wrong moment.

Brussels speak

■ The fiercest battle in the crucial meeting of the EC monetary committee at the weekend was not about sterling's rates, or the future of European monetary union – but over who should tell the press.

"I'll always remember where I was when I heard about ERM entry".

Jacques Delors, the European Commission president, wanted to mark sterling's entry in some special way. His first idea was that Guido Carli, finance minister of Italy which currently holds the EC presidency, should summon his 11 counterparts for a special meeting in Brussels. The veteran Carli was, however, in bed with flu. So Delors was advised to give his idea, and Carli, a rest.

Delors' fall-back plan was that the communique should have a higher political imprimatur than just the senior bureaucrats who make up the monetary committee. So, not only was it issued in the name of "ministers and central bank governors" – but to give this claim greater plausibility with the disbelieving press the communique was to be delayed until 5pm (even though agreement had been reached about three hours earlier) so that it would look as though these great men had scrutinised every iota and fraction.

Mario Sarcinelli, the committee's Italian chairman, was happy to go along with this ruse - which depended crucially on any official leaving earlier than 5 pm refusing comment to journalists.

But Hans Tietmayer, the senior Bundesbank board member, refused to play ball. Not a man who likes to appear devoid of authoritative details, Tietmayer said he had to leave and that if Sarcinelli didn't speed up photcopying the communique, he, Tietmayer, would break the news. And so it proved.

Thatcher hand

■ Jacques Delors' comments on Britain's entry to the ERM imperfectly hid his anger, according to commission-watchers in Brussels.

Delors was angry at two aspects of the British announcement. The decision to express the central rate in terms of D-Marks could be seen as a snub for the Ecu – although most oficials would not interpret it that way. And he did not like the decision to enter with the wider 6 per cent bands used by Spain rather than the narrower bands used by all other ERM members.

Underneath all that, however, lies a more serious political worry for Delors. It is that Margaret Thatcher is now in a position to call an election in late spring or early summer next year. She would then have time to return to Britain's European partners with a renewed mandate, and a greatly strengthened negotiating position for the final stages of the intergovernmental conference on monetary union.

The Bundesbank's worries about the timing of European monetary union make Germany an increasingly unreliable ally. The last thing Delors needs is a stronger hand for the British prime minister.

BRITAIN AND THE EMS

No quick-fix solution to economic problems

Nigel Lawson explains why the ERM decision is so important

The objectives of economic policy are easily stated: to suppress inflation and to create the conditions for a sustained improvement in economic performance, which in turn will permit the maximum practicable improvement in the living standards of the people.

The problem for any government, and in particular for the chancellor of the exchequer, is how best to achieve these two objectives. When I first became chancellor in 1983 I reviewed the policies then in place, and the range of instruments at my disposal, and concluded that I should set myself three key targets: a balanced budget, tax reform, and the entry of sterling into the Exchange Rate Mechanism of the European Monetary System. Over the years, the first two of these were achieved, but the third consistently eluded me. Needless to say, this was not for want of trying, but I was unable to overcome the deep-seated opposition of the prime minister.

Now that, at long last, ERM entry has been secured, the government has a coherent economic strategy which should make it possible in due course to attain on a lasting basis the twin objectives I listed at the beginning.

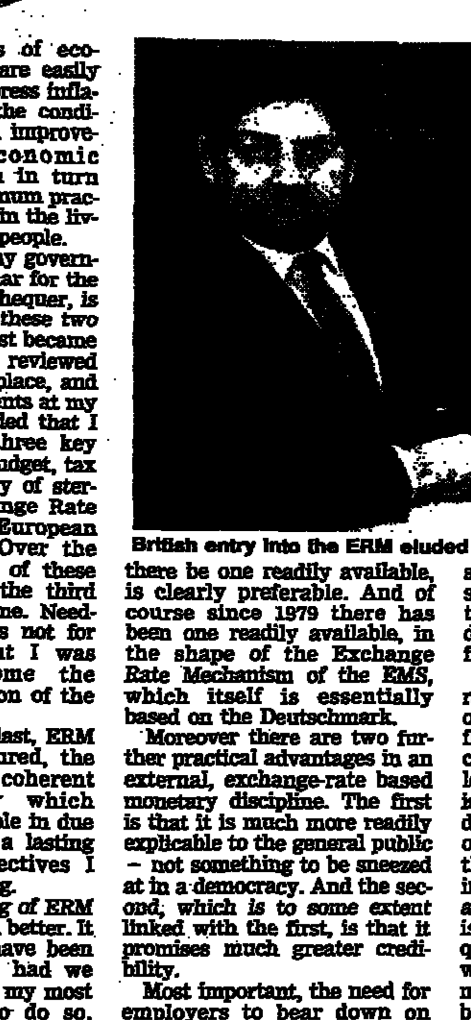
No doubt the timing of ERM entry could have been better. It would undoubtedly have been better, for example, had we entered when I made my most determined effort to do so, towards the end of 1985, when UK inflation stood at the new European Community average of a little over 5 per cent and was coming down still further, and when the pound stood at some DM3.75. Had we done so, the subsequent sharp fall in sterling in 1986 would not have occurred, and we would have avoided the levels of inflation we have today.

But what matters is that the historic decision has now at last been taken.

Why is it so important, and in practice so necessary?

It is, I think, nowadays widely recognised that the suppression of inflation requires firm monetary discipline. In theory, that discipline can be either internally based, through control of the domestic monetary aggregates, or externally, through control of the exchange rate. Historically, we have tended to follow the external route, whether via the gold standard (notably in the period up to the first world war) or via the dollar standard, during the period following the second world war.

Today, when financial deregulation (which is particularly advanced in the UK) and the globalisation of financial markets have made the domestic monetary aggregates an especially unreliable guide, an external discipline, should there be one readily available, is clearly preferable. And of course since 1979 there has been one readily available, in the shape of the Exchange Rate Mechanism of the EMS, which itself is essentially based on the Deutschmark.


British entry into the ERM eluded Nigel Lawson as chancellor

Moreover there are two further practical advantages in an external, exchange-rate based monetary discipline. The first is that it is much more readily explicable to the general public – not something to be sneezed at in a democracy. And the second, which is to some extent linked with the first, is that it promises much greater credibility.

Most important, the need for employers to bear down on their labour costs in general and pay rates in particular, because they know they will not be bailed out by a sterling devaluation, has more credibility and thus more force than a warning expressed in terms of a non-accommodating domestic monetary policy.

Of course, the credibility of this particular exchange rate objective depends on the credibility of the EMS as a system and of the Deutschmark as a non-inflationary currency. Thanks to their track record in recent years, the market credibility of both is reassuringly high. This is particularly true of the Deutschmark, where credibility is reinforced by, *inter alia*, the fact that German monetary policy is the responsibility of a statutory independent central bank, charged by law with the task of maintaining monetary stability. There is, incidentally, a lesson for us in this, too; but that is a matter for another day.

If, *per impossibile*, the Bundesbank were to succumb to a fit of madness, and become converted to the cause of inflation, then, even within the ERM, we would be free to realign sterling in an upward direction to protect us from the infection. This effectively disposes of the "loss of sovereignty" myth: we have pegged sterling to the Deutschmark simply because it suits us to do so and will continue to provide the necessary anti-inflationary discipline for the foreseeable future.

A more serious objection raised by the sceptics is that, once in the system, funds will flow into high-quality currencies like sterling, forcing us to lower interest rates more than is compatible with the needs of domestic monetary policy in order to keep the pound within the ERM range. There is indeed likely to be an immediate period of turbulence, which is why the government was quite right to enter initially with the wider, Spanish-style margins, as I suggested in my brief intervention in this year's budget debate – although I would hope that within, say, six months, we would move to the narrower margins. (For practical technical reasons it would, I believe, be better if the narrower margins were plus or minus 3 per cent, rather than the existing plus or minus 2¼ per cent, but that is very much a second order matter.)

But the important point is that the sort of conflict that the sceptics fear is likely to be both infrequent and short-lived. This is certainly the practical experience of the EMS during the 11 years it has been in existence: when inflation rates among the member nations varied widely, so too did interest rates. And there are good reasons why that should be so. For the alleged conflict exists only if the market gets it wrong. That is to say, the market is unaware of the inflationary pressures that oblige a particular country to have high nominal interest rates at any particular time. For if the market were aware, then it would fear that an excessive reduction in interest rates would make the parity impossible to maintain, and this would affect any tendency to favour the currency on yield grounds. Of course, the market can be, and occasionally is, wrong; but this is, as I have said, in practice infrequent and short-lived, and should be countered by (stabilising) intervention.

What would be wholly wrong is the suggestion in some quarters that an imprudent reduction in interest rates should be concealed, but offset by fiscal tightening – higher levels of taxation. It would be both highly dangerous, and largely ineffective, to try and use fiscal policy in this way.

There are some who hope, and others who fear, that full membership of the EMS is a step towards complete Economic and Monetary Union; that is to say, to a single European currency. This is clearly mistaken. Not only has the EMS (which is an agreement between the monetary authorities of the member states wholly outside the framework of the Rome treaty) existed successfully for 11 years without any move towards Emu, but the strongest advocates of Emu, such as Jacques Delors, explicitly argue that it is necessary partly because the EMS cannot survive the single market with its complete absence of exchange controls, and partly because the EMS is a purely economic arrangement which will not bring about the complete political union that is implicit in a single currency.

The first of these propositions is, I believe, clearly mistaken; the second assumes a desire for complete political union which at present simply does not exist, and indeed may well never exist. The only practical connection between full membership of the EMS and Emu is that, as a country, our participation in the former will at last enable Britain's voice to carry the authority it should in the important discussions that lie ahead about the latter, not least at the forthcoming intergovernmental conference in December.

There are other incidental advantages which ERM membership will bring. The greater exchange rate stability vis-a-vis our most important export market (and our principal competitors in third markets) will be of benefit to British industry. Politically, too, by depriving the Labour party of its only serious economic policy plank in its platform, it cannot fail to support the Conservative party's prospects in the next general election, whenever that may be.

What it will not do, however, is provide a quick-fix solution to the current difficulties of the British economy. Least of all does it open the way to an opportunist "golden scenario" in which interest rates come down rapidly leading to an early election in a burst of ephemeral euphoria. The benefits of ERM membership are real, but only if accompanied by economic stability; and so far from providing instant gratification – though the immediate market reaction was certainly encouraging – they will build up gradually over the years.

I warmly congratulate my successor on his signal achievement. If my own resignation last year indirectly made it less difficult for him, then so much the better.

LOMBARD

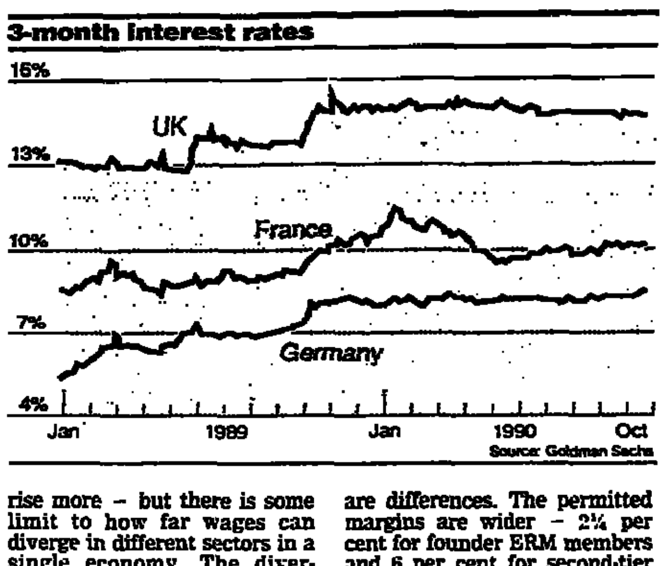
The new rules of the game for sterling

By Samuel Brittan

As an economic remedy ERM entry is long term. Any apparent quick fix such as a big fall in interest rates or a drop to below 5 per cent in the distorted headline inflation figure next year should be distrusted and will be self-reversing. The beneficial effects on wage bargaining and inflation expectations will only come as the effects of a firm exchange rate build up over the years and the government is seen to stick to it – assuming it does.

Goldman Sachs estimates that ERM entry will reduce underlying inflation from *nearly 8 per cent now to 4 per cent* in 1995, at the cost of four years of slow growth and unemployment rising by half a million. These are basically the costs of reducing inflation by other than cosmetics.

The particular estimates are based on the output losses attributed to France which used the ERM link with the D-Mark to subdue inflation in the 1980s. But British management and workers have one advantage the French did not have: the ability to learn from French experience of a policy of non-accommodation of inflationary pay settlements. But the lesson will not be learned by announcements alone; and there there will be a period of slow growth and lay-offs, even after the immediate recession ends. For interest rate euphoria will fade and pressures on profit margins from a strong pound will develop even in the recovery phase.



What is immediate is what the textbooks call a regime change or shift in the rules of the game. In the heyday of floating rates governments thought they were free to determine monetary policy according to the needs of the domestic economy – which ultimately led to double-digit inflation. Later on they tried to use monetary targets. More recently they reverted to "looking at everything".

From today the main guide will be the exchange rate. When there is downward pressure on sterling interest rates will rise. When there is upward pressure they will fall.

Does that mean that some other weapon will be needed to fight inflation or slump, as the devotees of fiscal policy or credit controls fondly hope? I am afraid not. The main counterinflationary weapon will *now be sterling's link to the* non-inflationary Mark, which is the anchor of the ERM.

If credibility is eventually won for this commitment, costs and prices in the internationally exposed half of the economy will not be able to rise faster than they do in Germany. In the sheltered domestic half, they can for some time rise more – but there is some limit to how far wages can diverge in different sectors in a single economy. The divergences will be smaller if EMS entry induces governments to reform tax subsidies for home owners and "Nimby" planning controls on new building.

The need to maintain credibility and confidence makes a UK budgetary debacle of the kind that has caused President Bush to shut the White House unthinkable. Instead, there will be pressure to maintain a near-budget balance over an economic cycle. This will be a difficult enough goal to maintain in the face of spending pressures without attempting *fiscal fine-tuning as well.*

As for credit controls: in view of the freedom of capital movements enshrined in the single market they would be a cheap political gesture from which the main beneficiaries would be the overseas competitors of British financial institutions. The one change worth attempting is in banking procedures *to stop ordinary personal* non-housing borrowers from borrowing on mortgage terms ("equity withdrawal") therefore more cheaply than some large industrial companies.

Fixed exchange rates with realignments as a very last resort will remind people of the Bretton Woods system which collapse in 1971-73. But there are differences. The permitted margins are wider – 2¼ per cent for founder ERM members and 6 per cent for second-tier newcomers like Spain and Britain. Moreover, in contrast to Bretton Woods, there is a Very Short-Term Financing Facility (VSTFF) under which central banks under pressure can count on unlimited intervention to support their currencies from their partners. Moreover, the ERM is part of a broader European movement in which much political capital has been invested and which has the goal of monetary union and a single currency.

But the most important difference is in ideas. Bretton Woods was widely regarded as a constraint on growth and employment. Today very few governments (except the American) believe they can permanently buy more output and jobs by sustained currency depreciation.

Another key distinction is that the currency anchor is the low-inflation Mark rather than *a dollar, which was suffering* from the inflationary financing of the Vietnam War. Despite German unification, the commitment of the Bundesbank to price stability and its popularity and political support are light years removed from the position of the Fed in the 1970s. If I am wrong and hard money virtue deserts Germany, then Britain will have to aim at a series of upward realignments against the Mark – which will happen when pigs learn to fly.

For a time it may look as if sterling pigs have performed just this feat. Although the main medium-term test of British entry will be the avoidance of downward realignment, the immediate problem is the opposite one of upward pressure on sterling. There is the famous "wall of money" expected to descend on London seeking an interest rate 6½ per cent higher than Germany's.

This problem has sometimes been called the peseta problem. This is because the peseta has been near the top of its range against the DM, as funds have come into Spain to take advantage of higher interest rates.

The answer, in the case of both the peseta and sterling, must lie in a mixture of intervention and allowing the exchange rate to move towards its effective upper limit, likely to be about DM3.13. For the nearer the pound gets to its upper limit, the greater the risk of a later fall with which the speculator has to reckon.

Mr John Major has spoken of an upward realignment (the pig flying) as preferable to an excessive cut in interest rates. He needs to be careful here, as too great a flexibility in the ceiling will cast doubt on his determination to maintain the floor. It would be better to rebuild reserves, which were drawn down while sterling was under pressure.

More use should also be made in the ERM of small and occasional parity changes subject to the technical rule that the maximum change in the central parity should be less than the permitted band of fluctuation. (The rule is required to prevent speculators having a one-way option.) Even in Brussels, they must know the meaning of *reculer pour mieux sauter*; and a more active use of the bands would be quite consistent with the aim of the earliest possible full Emu – so long as countries with 6 per cent bands adopt the normal 2¼ per cent ones as soon as possible.

Although the government will resist further large interest rate cuts almost too strenuously in the weeks ahead, there will be a temptation to reduce them too far in 1991 as the election approaches.

This indeed will be the test *of the government's serious*ness. If it reduces interest rates as little as necessary to stay within its ERM margins, it will be serious about using the ERM to fight inflation. If it reduces them as much as possible, even if gradually, the cynical political commentators who write about golden scenarios will be vindicated.

The view from Germany

An important step in the right direction

By Wilfried Guth

At last, good news from London for all Community members: the continent is no longer isolated! The British government's decision to participate in the Exchange Rate Mechanism (ERM) of the European Monetary System is to be warmly welcomed.

Without any doubt sterling's *participation in the ERM* will be beneficial both for Britain and the Community as a whole. While I can hardly suppress the observation that the decision should have come much earlier – again both in the UK's interest and that of the Community – the timing seems shrewdly chosen in many respects. Sterling should seek for such an anchor particularly at times of uncertainty. And who would doubt that the present period deserves that description?

The envisaged entry rate of *sterling of about* DM2.95 seems equally well chosen, along with the application for temporary use of the wider 6 per cent band which should, indeed, be applied for a rather short period only. This range will allow for sufficient fluctuations of the sterling rate in line with market developments. At the same time, a realignment some *time in the* future cannot and should not be excluded if more fundamental changes were to occur before the rates are irrevocably fixed.

The government has made it very clear what it hopes to achieve by bringing sterling into the ERM at this particular moment: a scaling down of inflation and interest rates. And it has accompanied its announcement with a demonstrative signal. Thus, Friday's important step was admittedly motivated mostly by domestic objectives; but it also serves the European purpose by strengthening *the cohesion of* the Community. As to the chances of success for the policy objectives it is obvious that entry into the ERM is by itself no guarantee whatsoever; there is no quasi-automatic anti-inflation mechanism involved in the system and the chancellor has repeatedly declared that he is fully aware of this. As in all other countries, success or failure in the fight against inflation depends entirely on the government's courage and perseverance to pursue appropriate policies.

Apparently, *the British* government is determined to continue firmly on its stabilisation course. Undoubtedly, membership in the ERM can be *of significant* help as the experience of other member countries, France in particular, has shown. By the government's observance of the "rules of the game" of such a proven stability-oriented bloc, national fiscal and monetary policies – as well as those of employers and trade unions – are given a set of parameters. In the UK's present circumstances, the expectations of market participants – given a better recognition of policy targets – can now, broadly speaking, be expected to move in the right direction. That in itself will provide an impor*tant element of stability.*

What are the advantages for the Community? In the field of exchange rates, Britain's entry into the ERM will bring to an end an important inconsistency. Up to now sterling has been a significant member of the "Ecu currency basket", and has influenced its fluctuations – but has not been anchored in the system of exchange rate stability. Therefore, a more stable development of the private "basket Ecu" can be expected which will be welcomed by all mar*ket participants. Yet,* more important still, is the psychological effect of Britain's entry. It will in due course significantly broaden and strengthen the bloc of stability which Europe represents in the international monetary order. Having said all this, however, it must be stressed that the real test of Britain's "Europe-mindedness" *is still* to come. And it will come very soon, with the start *of* the two intergovernmental conferences in December.

The European Monetary System and the ERM, important as they are and useful as they have proven, can only be considered "half-way stations" on the road to full Economic and Monetary Union (Emu), the declared aim of all Community members.

Regrettably, the British government has not yet found it possible to commit itself fully to this final aim. Although the submission of an alternative proposal to the Delors concept by Mr John Major was highly to be welcomed as an indication of Britain's interest and willingness to participate in the shaping of the future structure of the Community, it failed to endorse the concept of a European Central Bank and a single currency.

Leaving aside the question *of desirability of a full Emu, it* is fair to say that only with such a final structure will the full benefits of the free market for goods, services and capital be reaped for both individuals and enterprises. Or to phrase it in more political and global terms, that the proper weight of the Community can be established. It definitely seems worthwhile to sacrifice a certain amount of national sovereignty, limited anyway today in the monetary field, in order to achieve and share in a higher degree of European sovereignty.

Particularly from a German point of view it is of paramount importance that Britain, with its firmly rooted liberal and free market philosophy and mentality, takes an active part in this process. Let us hope that the entry into the ERM will eventually prove a turning point in Britain's attitude towards economic, monetary and political union. I am inclined to add that Germany is firmly committed to this aim, which should help to mit*igate concerns of some of our* partners with respect to the increasing economic weight of the unified Germany.

Wilfried Guth is former chief executive of Deutsche Bank and now a member of its supervisory board.

David Lascelles on the longer-term implications for the City

Spot of light amid gloom

Britain's entry into the ERM could hardly have come at a better time for the hard-pressed City of London – as its euphoric reaction on Friday night showed.

The latest CBI survey of the *UK financial services industry*, published today but conducted before the ERM announcement, found almost unremitting gloom. Banks, building societies, stockbrokers, fund managers, insurers – all were being squeezed by high interest rates and stagnant markets. Many firms faced cuts in capital spending and jobs.

Entry into the ERM changes the picture drastically, at least in the short term, by promising to bring down interest rates and buoy up the stock market. This could reverse the rising *tide of bankruptcies which* threatens to swamp the banks with loan losses, and breathe new life into the securities business, though people were warning over the week-end against excessive optimism.

Mr Angus Hislop of Coopers & Lybrand Deloitte who helped prepare the CBI survey, said the ERM decision would only *boost financial* businesses which were driven by sentiment, like stockbroking and fund management. "The fundamentals haven't changed and won't change very much," he said. Other *sectors such as* banks and building societies might not get quick relief.

Nonetheless, there is little doubt that the UK's entry into the ERM is of profound significance in the longer term for the City and for its role as a financial centre in Europe – a role which had begun to come under question while the UK *remained standoffish* on the ERM. Mr Michael Heseltine, the MP and former cabinet minister, had adopted the theme of the City withering on the sidelines of Europe.

Although the City enjoys an enormous lead in Europe (it has 50 per cent more foreign banks than either Frankfurt or Paris, and has larger and more varied financial markets), the fear was that the growing integration of the mainland, and the contrast between monetary stability there and uncertainty *in the UK* would gradually cause those markets to shift across the Channel.

"This is fundamentally very beneficial indeed, though the high entry rate will be tough for industries facing international competition," said Sir Martin Jacomb, the chairman of Barclays de Zoete Wedd, the investment banking arm of Barclays Bank. His main concern had been that the integration of the Schengen Five (Belgium, Netherlands, Luxembourg, France and Germany) would create a core to the EC from which London would be excluded. "The chances of their financial centre lying for ever elsewhere was very remote," he said.

This also means that London *should preserve its role as the* main foreign exchange market for the EC, though in the long run the process of monetary integration in Europe and the move towards a single currency could make a large part of those markets redundant. Given the profits that banks make from trading foreign exchange and selling currency hedging services, this could be a significant loss, ironically.

There is little doubt that the UK's entry into the ERM is of profound significance in the longer term for the City and for its role as a financial centre in Europe

A related long-term question is whether London can evolve into the central stock market for EC securities. It already has a sizeable slice of dealings in non-UK securities because it is often cheaper and easier to deal in big international blue chips there than in Frankfurt or Paris.

The answer depends to some extent on how fast other stock exchanges progress in developing liquidity and ease of execution. But London's ability at least to hold on to what it has got has been strengthened by this weekend's developments.

Mr Stephen Lewis, an economist who specialises in London's role, believes it will happen. "I expect to see a pick-up in foreigners doing business in their domestic securities in London," he says. "With London part of the European financial system, you have an underlying political reason to *do it.*"

Since the City is not in the business of exporting goods itself, it will not suffer directly in the same way as manufacturing industry from the greater strength which sterling is now expected to show. But a strong pound will make the City an even more expensive place for foreign institutions to operate in, and that could work to its disadvantage. London is *currently the most* expensive financial centre in Europe.

Against that, however, the greater stability of sterling should stimulate more activity on the sterling markets, particularly the long-suffering gilt-edged market where trading has been only a trickle.

More generally, a more stable currency will also be helpful in stabilising the capital base of UK banks which operate internationally. In the past, currency fluctuations have made it very difficult for banks to keep their sterling capital in the right proportion to assets denominated in foreign currencies. Three years ago, this *forced some smaller banks to* denominate their capital in dollars or several different currencies. For similar reasons, the balance sheet and earnings of large insurance companies should also benefit.

It is easy, however, to exaggerate the likely impact of ERM on the City. Despite the worries that were developing over the last year or two, it was not clear that London was really losing out to continental centres. The numbers of foreign banks and securities houses continued to rise, and markets expanded, even as the UK's economic plight worsened. The fact that Germany enjoyed a strong economy and stable currency was not producing any conspicuous rise in Frankfurt's position.

In a study last year, the Bank of England noted that quite separate factors, like a benign regulatory environment, a spirit of innovation and the gravitational pull of large numbers of people and institutions were, if anything, more important. It concluded back then that while there was *no cause for* complacency, London was "well-placed to meet the challenge".

This implies that while London may now be more closely plugged in to what is happening on the continent, it will also have to preserve its special characteristics from influences in the opposite direction. Will it now be easier for Germany to impose what many consider to be its stifling regulatory regime on London? What of the growing power of Brussels over the financial markets as 1992 approaches? Will the universal banking traditions of the continent, which are at odds with the more specialist style of the City, come to prevail?

"There *is* a danger that Germany will become so powerful that it will set the rules," says Mr Lewis.

What does seem certain is that the absence *of London for* many more years from full EC participation would have gradually eroded many of its advantages. That prospect has now been removed, and it is up to London to make the most of the new possibilities.

FINANCIAL TIMES
Monday October 8 1990

US BUDGET

Congress and the zoo mentality

By Peter Riddell, US Editor, in Washington

A CRYING six-year-old from Kansas outside a closed White House was the first public, and widely televised, sign that the US government had shut down.

The anger of his parents - and of thousands of tourists unable to visit the highly popular Air and Space Museum or the 12 other Smithsonian museums in Washington - was as nothing to the anger inside the White House. The normally serene formality of a cabinet meeting was marked by what one participant described as the liveliest and most animated discussion of the Bush presidency.

Formally, the US government ceased to function at midnight on Friday night when a continuing resolution providing temporary funding expired. A further resolution extending funding until the end of this week was approved by both the Senate and the House of Representatives late on Friday, but was vetoed on Saturday morning by President Bush to keep up pressure on Congress to approve a budget.

An attempt by the House to override the veto - by 260 votes to 138 - fell six votes short of the two-thirds majority needed. Many tourists, with nothing else to do, watched from the House gallery and cheered when one congressman said they should not be kept out of the museums.

So, for the fourth time in less than a decade, the US does not have a legally financed government. This is a patchy shutdown. Essential services such as the armed forces, the secret service, doctors and nurses at veterans' hospitals, and air traffic controllers, are exempt. Curiously, veterans' hospitals and air traffic controllers would be affected if a continuing resolution is approved and across-the-board spending cuts known as sequestration are applied under the Gramm-Rudman deficit reduction law.

Japanese visitors find the Smithsonian National Air and Space Museum in Washington is closed

As it is, workers deemed non-essential to protect life, national security or federal property, have been laid off. Over the weekend this has affected many Washington museums, Ford's Theatre (where Lincoln was assassinated), the Statue of Liberty in New York and National Parks like Yellowstone and Yosemite.

Fortuitously for the budget negotiators, today is a federal holiday and most government workers are not due to return to their offices until tomorrow By then all sides hope that both an overall budget resolution and temporary funding of the government will have been approved.

If there is still a stalemate, government workers will be sent home, the social security administration will stop processing application for benefits and clean-up of hazardous waste sites will be interrupted.

In the past - in 1981, 1984 and 1986 - such shutdowns have all lasted a day or less before the budgetary stalemate has been resolved and the workers have received back pay and related expenses.

A further complication this time is that the US Treasury has no authority to borrow. Unless Congress raises the debt ceiling by Thursday the US will default on $17.5bn in Treasury notes falling due for repayment.

For most people on a hot - 87F (31C) - weekend it was more a matter of annoyance than suffering, together with a heavy dose of contempt for the political leaders of the US for having so bungled the affairs of government.

When told that the indoor animal houses of the National Zoo were closed and thousands of people were queuing to get into the Capitol to see Congress, Senator Robert Dole, the Republican minority leader, commented: "That's because we're the only zoo in town."

Moscow ready to step up Gulf initiative

By John Wyles in Venice and Lamis Andoni in Amman

EUROPEAN Community governments appear to be coming round to the view that President Saddam Hussein of Iraq may well survive in power even if he succumbs to international pressure and withdraws from Kuwait.

There were also suggestions at the weekend that the Soviet Union was preparing to step up its diplomatic involvement in resolving the crisis.

Officials and diplomats in Jordan speculated yesterday that during the visit to Baghdad and Amman of Mr Yevgeny Primakov, the Soviet special envoy, Mr Saddam may have been offered the basis for a "withdrawal without fear" from Kuwait.

EC foreign ministers meeting for informal talks near Venice at the weekend devoted some time to considering the possibility of the Iraqi leader continuing in power and the measures needed to prevent him from remaining a permanent threat to stability in the Middle East.

The Soviet Ambassador in Amman, Mr Yuri Griadounov said yesterday that the Soviet Union was insisting on an Iraqi withdrawal from Kuwait as a prerequisite for any solution. But he added: "It is important to provide the conditions which would allow Iraq to withdraw from Kuwait peacefully."

Jordanian and PLO officials, who met the Soviet envoy on his way to Iraq, said Mr Primakov emphasised the linkage between the Gulf crisis and a *comprehensive settlement of* all the conflicts in the region.

Following two days of talks, Mr Primakov said that he was more hopeful of a peaceful settlement to the Gulf crisis. He did not elaborate but Soviet *diplomats in Amman said that* Moscow would be ready to proceed in its endeavours if there was the slightest sign of Iraqi co-operation.

Mr Primakov has also reportedly implied that Moscow was keen to maintain a strong Iraq. PLO and Jordanian officials said that such an assertion could help assure President Saddam that an Iraqi withdrawal from Kuwait would not necessarily result in the destruction of Iraqi military power or the regime itself.

Mr Douglas Hurd, the British foreign secretary, said after the EC foreign ministers' talks that they were addressing the *possibility that Mr Saddam* would continue to rule Iraq if he complied with the UN resolutions on withdrawal from Kuwait.

"He would be quite substantially weakened after two *failed military actions against* Moslem states," said Mr Hurd who thought, nevertheless, that the other countries in the region would want "to take some steps" to contain him.

At their meeting in Italy yesterday, the EC ministers are understood to have discussed the need for continuing arms embargoes and other measures to neutralise the Iraqi dictator.

The ministers agreed that it was too soon to consider a new UN resolution which would clearly threaten the use of force against Iraq.

Mr Hurd repeated the British view that sufficient cover was given by Article 51 of the UN Charter, *although he acknowl*edged that it might be necessary to "maximise support among international public opinion" by means of a resolution.

Gorbachev faces crucial test of support

By Quentin Peel in Moscow

PRESIDENT Mikhail Gorbachev faces a key test today both of his own control of the ruling Communist Party, and of the party's relevance in the growing political and social upheaval in the Soviet Union.

The first plenary session of a completely overhauled party Central Committee is supposed to pass judgment on both the country's economic reform plans and the progress in negotiating a new union treaty.

The 401 members were elected at last July's traumatic 28th party congress, which many outside observers believe marked the beginning of the end for the ruling party, in spite of Mr Gorbachev's apparent success in avoiding a serious split.

Since then, the entire political debate has switched to the elected soviets (councils) at all levels of national life – the union, the 15 republics, cities and regions – leaving the Communist Party itself looking increasingly powerless and irrelevant.

Yet at the provincial level, the party bureaucracy remains hugely powerful, dominating most soviets as well as continuing to dictate appointments in most organisations.

The question today will be whether there is a significant revolt by conservatives in the Central Committee, reflecting the conservatism of constituent parties such as the Russian Communist Party, against the economic reforms espoused by the Soviet leader.

"I hope they will support this approach to the market economy, the Gorbachev-Shatalin approach," said Mr Nail Bikkenin, editor of Kommunist, the party magazine, and a close adviser to the president.

"However, I am sure there will be a number of speeches which will try to frighten us about this market economy. The danger must be that we might get the impression that the Central Committee is against the market economy, the sort of impression left by the congress of the Russian Communist Party."

Nobody has yet had a real chance to assess the political complexion of the party's supreme ruling body since it was elected, with many new names on the list. Three quarters of the members were nominated by the 15 republican parties, almost certainly reflecting the fact that they are more conservative than the party's national leadership. Mr Gorbachev himself managed to have 99 of his own nominees voted through in July.

Mr Gorbachev has promised to produce a single economic reform plan by October 15. As for the union treaty, the entire constitutional basis of the Soviet Union, little clear progress seems yet to have been made towards the end-of-year deadline for reconciling the demands of all union republics for real sovereignty, and Mr Gorbachev's desire to keep the country in one piece.

Today he seems certain to play off the growing federal demands of the republics, dedicated to gaining greater devolution of powers from Moscow, against conservative demands to maintain central authority.

Sumitomo Bank chief quits over illegal loans scandal

By Stefan Wagstyl in Tokyo

A WIDENING stock market scandal in Japan yesterday brought down Mr Ichiro Isoda, chairman of Sumitomo Bank, one of the country's biggest banks.

Mr Isoda announced his intention to resign and take responsibility for the alleged involvement of a branch manager in illegal loans totalling Y23bn ($173m) made to stock market speculators.

The move shocked Japan's financial community and could undermine confidence in the stock market, where prices have been making a nervous recovery after last week hitting their lowest levels in more than three years.

There is no suggestion that Mr Isoda is personally involved in the scandal, which is currently under investigation by the Tokyo District Prosecutor's Office.

His decision to resign reflects the growing insistence of the Japanese authorities that allegations of financial malpractice have to be taken seriously, especially if Tokyo is to enhance its position as one of the world's three leading financial centres.

Speaking at a hastily-arranged press conference, Mr Isoda said he was resigning partly because Sumitomo Bank had a duty to the public. Mr Sotoo Tatsumi, the bank's president, said he, too, wanted to resign but would stay on to restructure managment systems and examine whether supervisory procedures were adequate.

Mr Isoda and Mr Tatsumi have in recent years led a rapid push for growth at Sumitomo, which has expanded its *lead* as the biggest profit-earner among Japan's banks. Mr Tatsumi's inquiry will now check whether the bank's emphasis on expansion encouraged some managers to cut corners.

The bank's alleged involvement in illegal loans surfaced during investigations by the *district prosecutor's office into* the affairs of Mr Mitsuhiro Kotani, head of Koshin, a speculative investment syndicate. Mr Kotani was arrested this summer and indicted on charges of manipulating the stock price of Fujita Kanko, a leisure group, in April this year.

He allegedly did this to raise funds to repay loans taken out to finance the controversial hostile takeover in 1987-88 of Kokusai Kogyo, an aerial survey company.

The first details of Sumitomo Bank's support for Mr Kotani were revealed on Friday with the arrest of Mr Aki*nori* Yamashita, *who* managed a branch in Tokyo until he resigned a few days before his arrest.

Mr Yamashita, who first met Mr Kotani in 1986, was one of the bank's main contact points with the stock speculator. He is accused of breaking banking law by encouraging Sumitomo customers to lend Y23bn in high-interest loans to speculators, including Y11.4bn to Mr Kotani in 1988. This enabled Mr Kotani to increase his borrowings over and above the substantial amounts he had already borrowed directly from Sumitomo. Bank managers are not allowed to handle indirect loans of this kind.

Mr Kiyoshi Akiyama, a business consultant, was arrested on charges of helping Mr Yamashita. Both men were allegedly rewarded with cash and securities for their services by Mr Kotani.

THE LEX COLUMN

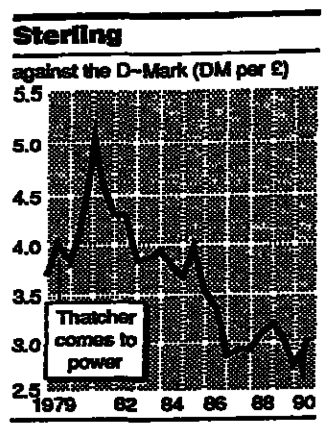
Waking up to a different world

As the London investment community moves to battle stations this morning, the fundamental question is whether the bear market is over. The classic bull argument, as advanced by Nomura, runs as follows. Suppose the FT-SE opens today at 2,200, which would already be 10 per cent higher than this time last week. The market would then be on a yield ratio of 2.1 and a historically cheap multiple of 10.3. A yield ratio of two has *proved a reliable floor* for the past decade. As a market with definable currency risk and an economy self-sufficient in oil, the UK must now look especially attractive to the international investor. Having risen 10 per cent in the past week, the market could do the same in this.

The most obvious snag is that this involves extrapolation from the old rules, whereas the ERM is fundamentally unknown territory. This applies not only to the effects of a non-depreciating currency on the UK corporate sector. It might also change the relationship between gilt and equity yields. Historically, gilts have had to yield at least twice as much as equities to compensate for their greater exposure to inflation. To the extent that the market believes in the ERM promise of German inflation rates, it ought to accept a lower yield premium on gilts.

Another point deserving attention is that some of the effects of ERM membership appear to have been discounted already. Heavy industrial stocks with a high overseas content in their earnings – Pilkington, ICI, RTZ, Cookson – have all underperformed this year. Of the year's 10 best performing alpha stocks until the eve of the announcement, *six were retailers and one was* a building society. This was partly because of the existing strength of sterling, particularly against the dollar; but as a counter-inflationary mechanism, strong sterling is what the ERM is supposed to be all about.

This is not to deny that equi*ties are in for a lively week*. High liquidity among frustrated institutions, if nothing else, should practically guarantee it. The market's more considered reaction, though, is much less easy to call.



Sterling

The other central question for the financial markets is whether ERM entry will trigger a huge inflow into sterling. It would be surprising if it did not, given the scale of the interest rate differentials and the foreign exchange market's current preference for the weaker high-yielding currencies as opposed to the hard currencies such as the D-Mark. The more difficult question is how the authorities will respond if £30bn of hot money suddenly flows into one of a few big internationally traded currencies.

The answer depends on how cynical one wants to be about the government's motives for entering the ERM at this juncture. It would be nice to believe that party politics was not a factor; but this government has yet to demonstrate that it attaches a higher priority to conquering inflation than to the threat of recession and electoral defeat.

There is a real danger that the operation of the ERM will undermine *what is left of the* UK's anti-inflation policy. British industry can just about live with a central rate of around DM2.95; but the going rate for wage increases in the current round is going to have to be more like 7 per cent than 10 per cent plus if there is to be any chance of the rate of inflation converging.

It is reasonably easy to see short-term rates of 11 per cent a year from now. In the absence of a tighter fiscal policy or the introduction of some form of credit controls – both highly unlikely – it is hard to see what would prevent another pre-election borrowing *boom. Ideally, the authorities* should match any upward pressure on the exchange rate by intervening heavily rather than cutting interest rates. But that would entail a resumption of gilt over-funding, which is not what the bulls of the UK fixed interest market have in mind.

This is just one more reason why it would be dangerous to get too carried away with ERM euphoria. Clearly, there is room for short rates to tumble over the next 12 months, which will be good news for holders of short-term UK paper. But the longer end of the bond market has more than discounted any immediate benefits. The yield spread between 10-year government bonds in France and the UK has halved to just 60 basis points since the start of the year. On the basis of current inflation rates, French bonds are offering a real yield of more than 7 per cent while similar UK paper is yielding less than 1 per cent.

The difference between the two markets also underlines another problem of the ERM which one day may come to haunt even the UK. The recent sharp slowdown in the French economy requires a cut in interest rates; but the strength of high-inflation ERM currencies such as the peseta means that the French cannot move.

The Continent

Europe would be so much more welcoming a place for sterling to enter if this were still October 1989. Twelve months ago, with the Berlin Wall not yet fallen and Brent crude at $19 per barrel, the UK was not ready but European conditions were ideal. Interest rates were relatively low in West Germany and France, a construction and consumer-led boom was under way across most of the continent, inflation and the unions were still under control and the politics looked solid and safe, in West Germany especially.

The critical question for the next 12 months is whether or not the major European economies can manage a soft landing and either avoid putting interest rates up, or better still bring them down, as France wishes to do. Cheaper money next year on the Continent and strong-ish demand for UK exports would be Mr *Major's* ideal combination. So far, the prognosis is reasonable. Worries about the instant inflationary impact of German monetary union have faded; and September's Bundesbank monthly report pointed away from an early tightening of monetary policy there. But the *German construction market* is still fizzing away; the Bundesbank will be keeping a close eye on it well into next year, so a Bundesbank interest rate rise is likely at some point, and with it some action by the French.

The saving grace, for the continental Europeans, may well be their relatively higher unemployment, which may keep the lid on their inflation. But then if the UK's labour market was like that, ERM entry would have happened long ago.

Timing of ERM entry 'not political'

Continued from page 1

fluctuation limits against the other EC currencies will be determined and announced by the EC central banks early this morning.

Mr Major yesterday held out the prospect of Britain moving fairly swiftly to the narrower 2.25 per cent fluctuation bands used by all other ERM currencies except Spain.

But he was careful not to exclude any options. Although he thought it unlikely that sterling would come under persistent upward pressure in the EMS, he was prepared to revalue the pound in the ERM if that was necessary to help the counter-inflation policy. Although he could not be certain what would happen in five or 10 years' time, he underlined that he would be averse to devaluing the pound in the ERM.

In Tokyo yesterday, Mr Robin Leigh-Pemberton, the governor of the Bank of England, warned against hopes that Britain's ERM entry might be followed by further rapid cuts in interest rates.

"We have got to be certain such reductions can be stable. You don't get credibility by reductions which shortly afterwards have to be changed and reversed," he told the Financial Times.

Mr Leigh-Pemberton hinted strongly that Friday's announcement of the cut in interest rates to 14 per cent had been politically influenced.

He said that as a central banker he would have preferred the decision to enter the ERM to have been separated from the decision to cut interest rates.

The political and economic impact of sterling's full entry into the EMS will dominate discussions by EC finance ministers on economic and monetary union (Emu) in Luxembourg today.

It is thought that Mr Major may try to use Britain's newly-enhanced authority as an ERM member to head off rapid moves toward a single European currency and central bank.

UK angers partners

Continued form Page 1

key condition for further movement towards Emu, Brussels wants to avoid sterling staying in the wide band for anything like the 11 years the Italian lira did.

No national official spoke out against the UK opting for the wider margin (as some did when Spain made the same decision). "Everyone," said one participant, "is cautious because of the international position of the pound – we are the ones who have to spend the money in intervention, not the Commission".

● Policy. From virtually all quarters came a warning that the Thatcher government could no longer pursue pure monetarism. In addition to interest rates, it would have to use fiscal/budgetary tools – even, a Belgian official had the temerity to suggest, incomes policy – to control inflation in what Saturday's communique referred to as "an appropriate policy mix".

Lying behind the warning appeared, to some participants at Saturday's meeting, to be fears that sterling's ERM entry might somehow compound such factors as Gulf-related oil price rises and outflows of capital to eastern Europe and lead to a general increase in interest rates.

Only two countries, Portugal and Greece, are now left outside the ERM.

WORLDWIDE WEATHER

City		°C	°F
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Amsterdam	[illegible]	[illegible]	[illegible]
Athens	[illegible]	[illegible]	[illegible]
Bahrain	[illegible]	[illegible]	[illegible]
Bangkok	[illegible]	[illegible]	[illegible]
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Warsaw	[illegible]	[illegible]	[illegible]
Washington	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]

Temperatures at midday yesterday C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sunny Sl-Sleet Sn-Snow T-Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Monday October 8 1990

INSIDE

Polly Peck puts price on survival

To bridge its immediate liquidity gap Polly Peck International believes it needs no more than £200m, assuming bank creditors agree this week to give a longer breathing space on debt. The group strategy for remaining solvent through until January depends on remitting much of the £143m in cash it claims to have in Turkey and northern Cyprus; getting asset disposals under way and receiving some Turkish government support. Most important, however, is persuading creditors not to demand the repayment of nearly £200m in loan facilities and commercial paper which falls due in the final three months of this year, write Clay Harris and David Barchard. Page 20

Fight for cash in Willis bid

The refusal of Corroon & Black to consider a $40-a-share cash offer from Aon Insurance and pursue a lower paper bid from Britain's Willis Faber means many arbitrageurs face large losses. Last week they were claiming substantial interest in a mechanism which would get them cash payment for their shares. But both Willis Faber and Corroon remained confident the merger will go ahead. Nikki Tait and Richard Lapper report. Page 20

Worst of times for junk bonds

The last couple of months have been the worst ever for the US junk bond market. Absolute bond yields are at an all-time high, as are yield margins relative to US Treasuries. Iraq's invasion of Kuwait appears to have triggered the latest plunge by bringing to the forefront concerns about economic recession, a harbinger of doom for junk bonds, and the Salomon Brothers Composite High-Yield Index fell 4.72 per cent in August and 5.91 per cent in September. Tracy Corrigan reports. Page 23

Market Statistics

Companies in this section

Uncertain results of a newly stable pound

The markets' immediate reaction on Friday to entry to the ERM was to push up both sterling and UK equities. That double reaction may prove justified for the immediate future, and perhaps in a long term some years away. In between, however, lies a time filled with uncertainty and potential difficulties for UK companies and markets.

Companies deriving 20% of trading profits from the EC

(excluding UK)

	% profits		% profits		% profits
TIP Europe	56	BBA	30	TDG	22
Unilever	50	Manpower	30	Cadbury Schweppes	21
Queens Moat	49	Glaxo	29	MB	21
Hazlewood Foods	42	De La Rue	28	Allied-Lyons	20
RMC	41	Steetley	28	British Aerospace	20
Wolseley	37	BPB	27	Pisons	20
T & N	36	IMI	25	Dawson	20
Lucas	35	Siebe	25	Lowe	20
Thorn EMI	35	British Steel	25	Saatchi	20
GKN	34	APV	24	Vickers	20
SK Beecham	33	Pilkington	24	WPP	20
Redland	32	GEC	22	Scottish & Newcastle	20
TI Group	30	Guinness	22		

Source: S.G. Warburg Securities

A higher pound will reduce the value of companies' earnings from the rest of the EC. But a stable exchange rate should reduce profit swings, making shares more attractive

Analysts differ on sustainability of rally

By Antonia Sharpe

Stockbrokers' analysts were yesterday predicting rising share prices on London's stockmarket following Friday's news.

Mr John Reynolds, market strategist at County NatWest, says that – given the market's short supply of stock and the low trading volumes in recent months – there is a danger that the bounce will be so pronounced that many fund managers will be left holding cash.

He advises investors to use futures or index options to gain immediate exposure to the equity market.

Interest-rate sensitive and domestically-oriented sectors are the most obvious beneficiaries of Friday's cut in base rates. Mr Mark Brown, chief UK strategist at UBS Phillips & Drew, says that construction and building contracting stocks, which have been savaged by high interest rates and threats of bankruptcy, are expected also to be re-rated. Retailers should get a lift as Friday's cut in interest rates, and the prospect of a further one-point drop in the next few months, boosts spending in the run-up to Christmas.

Stocks of companies heavily dependent on overseas earnings are likely to lag behind the market in the short-term as sterling appreciates, though stocks which have an attractive yield premium, such as ICI, should get some protection.

Mr George Hodgson, market strategist at S.G. Warburg Securities says that entry into the ERM is not an easy option for manufacturing industry, which will no longer be bailed out by devaluation when wage inflation gets out of hand.

"The UK economy, especially the manufacturing sector, is still in for a long slog," he says, and this will keep the pressure on manufacturing stocks.

Mr Bill Smith, chief equity strategist at Barclays de Zoete Wedd, says that hopes for a quick turnaround in domestic demand may be disappointed. Highly-geared capital goods companies, which would benefit from lower interest rates as their borrowing costs would ease, still faced a drop in investment and demand for their products.

County NatWest's Mr Reynolds, who had turned positive on the market towards the end of September, believes that the market is cheap and that institutions should be buying a broad portfolio of stocks. The market was finally free of the uncertainty about the ERM which had been around since June and could now assume that the government would call a general election possibly as early as mid-summer 1991.

On the other hand, Warburg's Mr Hodgson believes that the current recovery in share prices is a rally in a bear market. He fears that investors would lose sight of valuations in their hurry to get back into the market.

For now, sterling's entry into the ERM is mainly a domestic issue, says BZW's Mr Smith, but in the future the stockmarkets of all ERM members will converge for investment purposes.

Inflation differentials and yield premiums between the ERM markets will be instrumental in deciding when one market is looking cheap compared to another.

A pick-up in demand in the UK will benefit continental European companies with an exposure to the UK, says Dr Richard Reid, chief European economist at UBS Phillips & Drew.

UK funds may seek other EC markets

By Philip Coggan

OVERSEAS investors are expected to flock into sterling-denominated assets as part of the immediate reaction to Britain's entry into the exchange rate mechanism. But entry could also cause a fundamental change in UK institutional portfolios.

Historically, UK pension funds have kept a large percentage of their funds in sterling to ensure that their assets matched their liabilities (funding the retirement benefits of UK employees). But the more closely the pound is linked to the D-Mark, the more sterling and EC assets become indistinguishable.

The typical weighting of a pension fund is 57 per cent in UK equities and 27 per cent in overseas shares. The international element is then weighted according to the relative capitalisations of the various stockmarkets.

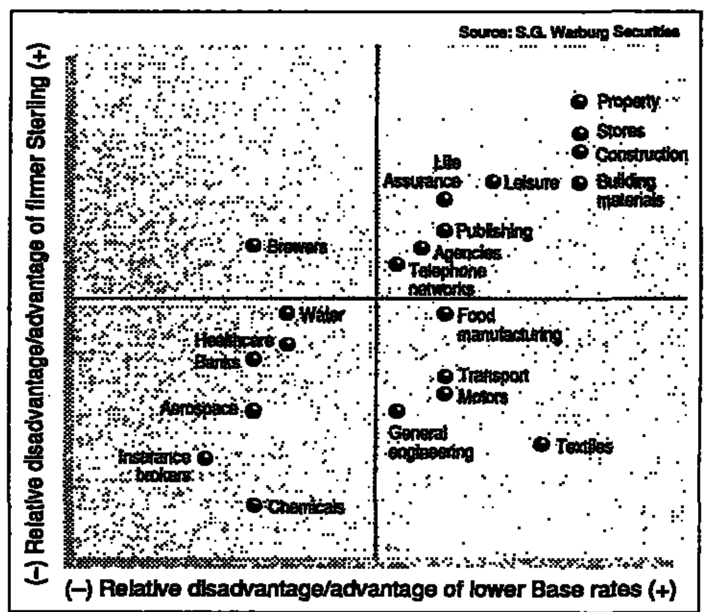
Because of the underdevelopment of some EC stockmarkets, the theoretical weighting of equities from other EC countries is currently only around 4½ per cent. In fact, however, UK pension funds have tended to be overweight in the rest of the EC – recent estimates suggest that they have 8 per cent of their portfolios invested there.

But in the limiting case of European monetary union, Mr Paul Woolley of fund management group GMO Woolley has argued that sterling and EC assets would be effectively the same. If so, then the 61½ per cent of their portfolios that pension funds currently devote to EC (including UK) assets ought to be divided in a radically different manner. Based on market weightings, theory would suggest that only 24 per cent of assets should be in UK equities while 37½ per cent should be invested in the rest of the EC.

For cultural reasons, such a huge shift is unlikely; and ERM entry by itself ties sterling less closely to continental currencies than would full-scale monetary union. None the less the chances are that UK pension funds will now shift more of their portfolios into other EC markets. Not all the funds will be switched from the UK – some may come from other overseas markets such as the US.

Reflections in a hall of distorting mirrors

Andrew Hill explores the implications of ERM entry and lower interest rates for UK corporate profits



From recession to rejoicing in half an hour: the British equity market's reaction to Friday's news that the UK would take full European Monetary System membership and drop interest rates was exciting to watch.

But when it comes to reflecting reality, the stockmarket has always been a hall of distorting mirrors. The short-term reaction in the markets may be euphoric, but it will take slightly longer for corporate profitability to catch up with investor sentiment.

Take building materials and construction companies. On Friday, the share price of Tarmac, Britain's biggest housebuilder, rose 16 per cent in minutes. But less than a fortnight ago Tarmac announced that its first-half profits had fallen by 36 per cent, and construction output in Britain is still expected to drop by 6 per cent this year.

A reduction in interest rates may inject confidence back into the enervated housing market, but some analysts believe that base rates will have to come down still further and stay down before the sector's profits improve. And it could take a year to 18 months for such improvements to show through.

By contrast, building materials companies like RMC, Redland and Steetley have been supported recently by their strong overseas earnings, in particular in West Germany. A stable, strong pound put pressure on such earnings when they are translated into sterling. None the less, the stronger relative growth of continental housing markets will help these companies compared with their more domestically-minded rivals.

The chemicals sector could take the hardest knocks from a sustained strong pound. Imperial Chemical Industries, traditional bellwether of the British stockmarket, was another beneficiary of Friday's surge in equities. But with its fiercest competition coming from Germany, the chemicals sector's profitability is sensitive to the D-Mark/sterling exchange rate. As Warburg Securities points out, it was in 1980, when demand was low and the pound strong, that ICI took the infamous decision to cut its dividend.

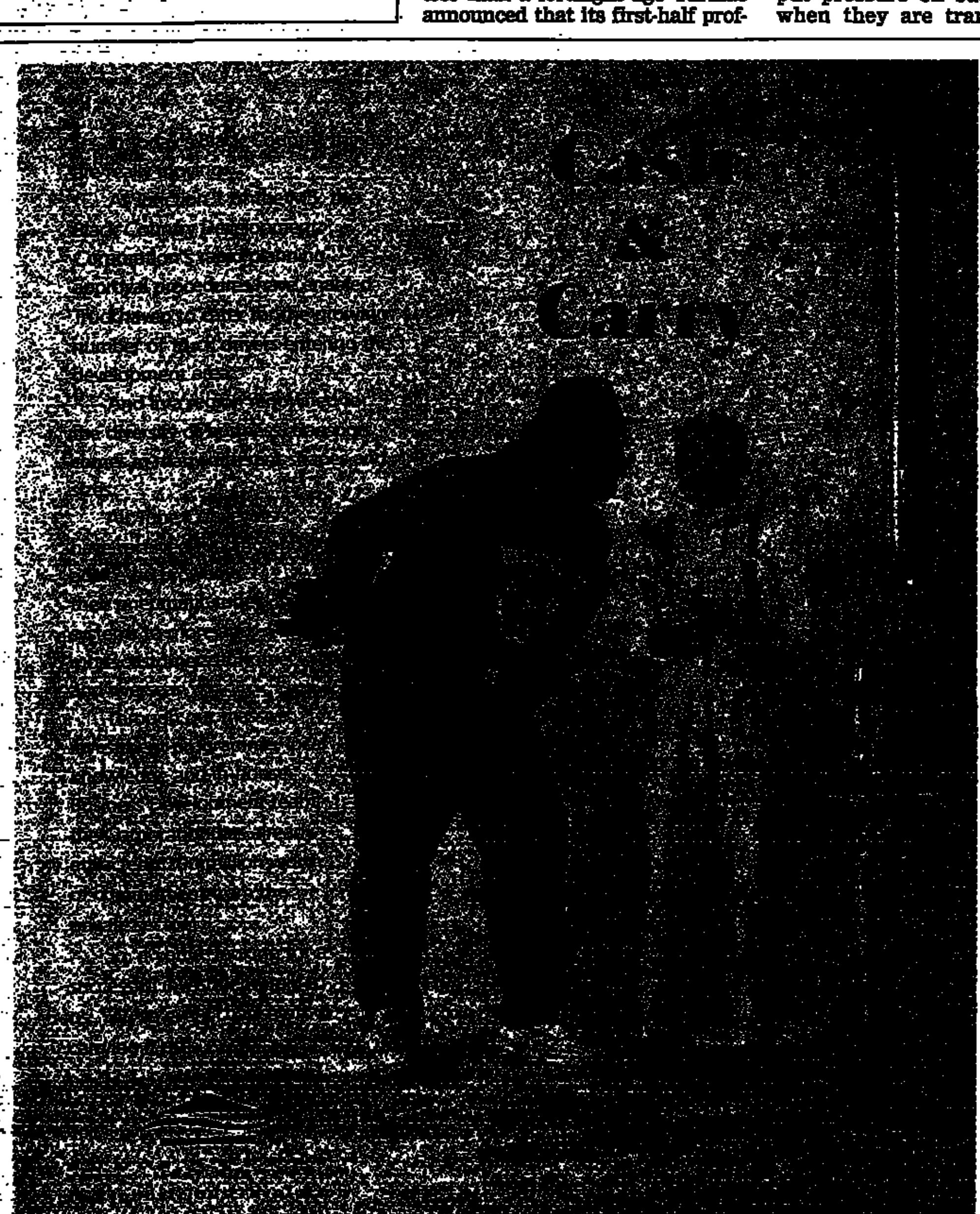
The interest rate cuts should have a direct impact on the profitability of the UK's highly-geared property sector – shares in the property developer Rosehaugh, were among the immediate winners on Friday. A strong, stable pound may attract non-UK buyers back into the slack property market, because of reduced currency risk.

Interest rate reductions in the UK will not be good news for all companies with debt on their balance sheets. Warburg points out, for example, that conglomerates like BTR and Tomkins have borrowed money in the US while keeping cash on deposit in Britain. Those groups' earnings are likely to suffer as UK base rates come down, because interest charges (in the US) will remain the same, while interest receivable will be reduced.

Analysts also warn against betting on a long-term improvement in consumer spending, particularly in the leisure sector. One side-effect of a continued squeeze on corporate profits (from interest rates and a strong pound) is likely to be a slowing of wage increases and possibly a jump in the unemployment figures. A revival in profits for the pure leisure companies – the bingo halls and discothèques, for example – might prove short-lived.

If ERM entry heralds a medium-term tightening of economic policy, the same may well apply to retailers, but the profit and loss accounts of the stores sector will still enjoy the immediate benefits of Friday's announcements. Retailers always respond quickly to relaxation in monetary policy, and although some, like Marks and Spencer, seemed to be braving the downturn well, others will be glad of a respite.

That said, there is no excuse for losing a sense of perspective. One public relations company issued a breathless press release on Friday describing the interest-rate cut as "the turning point of the century" for retailers. It was an exciting day, but perhaps not that exciting.



Economics Notebook

All to play for on monetary union

The British government's decision to take sterling into the exchange rate mechanism of the European Monetary System will elevate Mr John Major, the Chancellor, to hero status when he attends this month's regular monthly meeting of EC economics and finance ministers in Luxembourg later today.

But it is less certain that the long awaited move will materially affect Britain's capacity to influence the European Community's drive towards economic and monetary union (EMU).

On Saturday, in an interview with BBC Radio's Today programme, the Chancellor made clear that full membership of the EMS did not mean that the British government was now joining the enthusiasts among EC member states that seek a rapid move to EMU.

Britain's European credentials may be looking more polished than at any time since entry into the community nearly 20 years ago. But Mr Major made clear that the government was still opposed to a "headlong rush" towards EMU.

To move swiftly towards a single currency or central bank "would be immensely economically damaging for Europe and immensely divisive for Europe," he said.

So Mr Jacques Delors, the commission president, who has advocated moving from the present first stage of EMU, that began on July 1, to the transitional second stage as soon as January 1 1993, will draw only limited comfort from the government's ERM decision.

But similarly, Mr Major would be unwise to think that Britain's belated accession to the ERM will swing other member states in favour of his "hard Ecu" alternative for stage two.

This plan, to recap briefly, envisages the development of the present European Currency Unit into a parallel currency alongside existing EC currencies in the hope that it might one day become the community's single currency. A main attraction of the plan for the Chancellor and Mrs Margaret Thatcher, the prime minister, is that it offers an evolutionary road to EMU rather than what the UK calls the "prescriptive road" mapped out by Mr Delors and which sets a single currency and central bank as its final goals.

Mr Major has been an assiduous promoter of the hard Ecu since first unveiling his plan in June. Last month, his hopes received a boost when Mr Carlos Solchaga, the Spanish finance minister, incorporated the hard Ecu in his own thoughts for the second stage towards EMU.

But other nations are now looking seriously at how to tackle the transition from the present stage one of EMU, in which all countries gradually end up in the narrow band of the ERM and dispense with controls on the movement of persons, goods and capital in the EC, to the full economic and monetary union of stage three.

Last month, Mr Wim Kok, the Dutch finance minister, circulated compromise proposals for the second phase of EMU that envisaged the creation of a European central bank in the transition period. These ideas, as reported elsewhere in this newspaper, have formed the basis of an internal Bundesbank paper that would permit a move to stage two of EMU on January 1 1994, but only if strict conditions have been met. The conditions in the Bundesbank paper would ensure that any eventual European central bank would be as independent as the Bundesbank and as committed to combatting inflation.

If the internal Bundesbank paper becomes the basis of German policy towards EMU, it will constitute a major challenge to Mr Major's plans for the hard Ecu. It will set the tone of the debate on stage two if only because the Bundesbank is Europe's most independent central bank, with a proven track record for combating inflation, in an economy, which since German unification is more dominant in the EC than ever before.

Mr Major's hard Ecu proposals have already been dismissed as virtually irrelevant by Mr Karl Otto Pöhl, the Bundesbank president. After last month's Rome meeting of EC economics and finance ministers to discuss EMU, Mr Pöhl said it was "false" to imagine that there had been any significant support for the British scheme.

He said the EC monetary committee, which brings together senior officials from the member states' central banks and finance ministries as well as the commission in Brussels, had investigated the hard Ecu proposals and rejected them.

Speaking in Frankfurt on September 19, Mr Pöhl said the Bundesbank could approve of the British goal of making the Ecu harder. But while it might be desirable to make the Ecu more attractive, it would be "largely irrelevant" from the viewpoint of monetary policy and more of "symbolic importance".

After such a put-down, one might ask why Mr Major is soldiering on with his plan. But his ability to secure sterling's entry into the ERM shows he is a dogged operator. He will be discussing EMU in Luxembourg today convinced that there is still all to play for when the EC Intergovernmental Conferences on economic and political union start in mid-December.

Peter Norman

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COMPANIES AND FINANCE

Polly Peck 'needs £200m to survive'

By Clay Harris in London and David Barchard in Ankara

POLLY PECK International believes it needs no more than £200m to bridge its immediate liquidity gap if bank creditors agree this week to give it a longer breathing space on debt.

Its strategy for remaining solvent through January depends on raising this sum by remitting much of the £143m in cash it claims to have in Turkey and northern Cyprus, getting asset disposals under way and receiving some Turkish government support.

More importantly, however, it must persuade creditors not to demand the repayment of a further £200m in loan facilities and commercial paper which falls due in the final three months of this year.

At a meeting in London on Friday, bankers agreed only to a one-week moratorium on repayments but held out the possibility of accepting a longer standstill.

The future role of Mr Asil Nadir at Polly Peck is becoming less certain. The board rejected his offer to resign as chairman last Monday, but yesterday a senior director refused to confirm that was still the case. Mr Nadir has flown to Turkey for talks.

Directors are now playing down the importance of direct financial assistance from Turkish institutions, and claim to be looking instead only for advance export credits.

Turkish officials said in Ankara that the decision about any rescue package would rest with President Turgut Ozal.

"As far as I know, no such decision has yet been taken and there are no signs that a package is on the way," one Turkish banker said. "But if Mr Ozal wants one, it could still be launched."

Turkish government sources have declined to comment on claims that a package will be approved, but civil servants say in private they have not yet seen any signs of one.

Western diplomats in the Turkish capital also say they have not yet seen any evidence of a support package. "President Ozal may go ahead with one, but he has not made any publication of his intentions yet," said one diplomat.

The Polly Peck affair, he added, was surrounded by a web of local political rumours which made it extremely difficult to assess the situation of the company and its financial problems. "The issue is highly political. It is very much Mr Ozal's personal decision."

Turkish private sector bankers in Istanbul continue to cast doubt on any idea of a rescue, warning that if the main state banks provided help, they could face possible legal complications later.

"I very much doubt that the head of any of the Turkish state banks will feel able to sign documents giving permission for a loan to Mr Nadir," said one banker. Another said: "There are always ways of finding money in a desperate situation. President Ozal can still do it if he wants to, but he would probably attract some unpopularity if he did."

Polly Peck told bankers in London on Friday that its net borrowings had risen from £864m to £1.07bn in the three months to September 30. The main reason was a near halving of cash balances from £404m; outstanding borrowings declined by about £20m over the period, the company said.

The most dramatic three-month fall in cash balances was shown in the "Near East", which includes Turkey and northern Cyprus, from £306m to £143m. A director claimed yesterday that this decline reflected normal seasonal payments for citrus fruit and electronic components.

On Friday night, Moody's downgraded the ratings on $600m of debt issued by Polly Peck International Finance, a subsidiary of Polly Peck, for the second time in a week.

Swiss franc and D-Mark bonds guaranteed on a senior basis by the parent were reduced from Ba3 to B3 and subordinated convertible preference shares from B2 to Caa.

Maxwell makes £60m Italian disposal

By Raymond Snoddy

MR ROBERT MAXWELL last night announced agreement to sell his Italian consumer publishing operation in a deal worth £60m.

Mr Maxwell, chairman of Maxwell Communication Corporation, is selling MCC Italia – the Panini children's album collection publishers, to a number of offshore funds advised by Schroder Ventures, the venture capital arm of the merchant bank.

Panini, which Mr Maxwell bought more than two years ago, specialises in football stickers and character merchandising. It is believed to have had a particularly good year as a result of the World Cup.

The sale, set to be completed next month, is the latest in a disposal programme designed to reduce MCC's £2.9bn debt, most of it medium-term, by at least $1bn.

Mr Maxwell said last night a further disposal, the sale of the Macmillan encyclopaedia subsidiary, PF Collier, was "imminent". The purchaser is expected to be Langenscheidt, the west German publisher, for a price of around $97m.

The chairman of MCC said last week that the 20 per cent stake in Quebecor Printing and 27 per cent investment in Donohue's newsprint mill in Canada would both be sold to his private newspaper publishing company, Mirror Group Newspapers.

In a change of strategy, the television interests held by MGN, including the 20 per cent stake in Central Independent Television, would be sold.

Negotiations are continuing for the sale of two other consumer publishing businesses – so far unnamed.

The final $415m of Mr Maxwell's short-term debt, taken on as part of the financial package raised to buy Macmillan, the US publisher, and the Official Airline Guides, is due on October 23. Mr Maxwell has always said the money would be available in advance of that date.

CEAC profits boosted by acquisitions

By William Dawkins in Paris

NEARLY doubled sales and net profits were achieved in the first half of 1990 by Compagnie Européene d'Accumulateurs (CEAC), Europe's second largest lead battery maker.

The group, which is itself about to be sold to Fiat, the Italian car maker, said the increase was almost entirely the result of acquisitions.

Sales jumped from FFr630m to FFr1.16bn and net profits from FFr5.2m to FFr10.2m. Full year profits should at least equal last year's FFr62.7m, the group forecast.

Compagnie Générale d'Electricité (CGE), the French telecommunications and engineering conglomerate, which owns all of CEAC's equity, announced last week that it will sell 50.1 per cent of that to Fiat as part of a share exchange and co-operation agreement between the two parent companies.

The deal comes roughly a year after CGE bought the final 27 per cent of CEAC it did not already own, and increased the equity by FFr305m.

Acquisitions which fuelled the rise were the traction battery operations of Chloride, of the UK, bought in July last year and Tudor, a Belgian battery maker taken over early this year. CEAC made its acquisitions in response to a restructuring of the European lead acid battery industry which began in 1989.

Chloride's battery activities recorded sales of £55m last year, while Tudor's 1989 turnover was FFr260m. This compares with CEAC's sales of FFr1.9bn – which included six months from Chloride – a 30 per cent increase on 1988.

Propeller sells back Skopes at £1.8m loss

By Jane Fuller

PROPELLER, the USM-quoted leisurewear company, is selling back to the vendors a menswear business that it acquired only a year ago.

After the market closed on Friday, it also announced an interim retained loss of £2.44m, a 3-for-2 rights issue to restore its balance sheet and provide working capital, the cancellation of last year's dividend and the resignation of its non-executive chairman, Mr Mike Keen.

Propeller described as misguided the purchase of Skopes, a menswear distributor which could have cost it up to £6.25m.

Although Skopes had remained profitable, "the capital commitment of completing the acquisition would prove to be far too onerous for the group." As initial consideration, Propeller paid £1.5m cash and issued a £1.25m loan note. Further payments were related to profit in the years to July 1992.

It had also become clear that the integration of Skopes into the group was restrained by the acquisition agreement, "which effectively locked up the Skopes assets and business until all of the consideration was paid."

It had, therefore, been decided to accept the offer of the vendor, Delves Limited, to buy back the company. A loss of £1.84m on the disposal was included in the interim results as an extraordinary item.

The pre-tax loss for the six months to August 3 was £461,000, against £410,000 profit last time, on turnover of £6.54m (£5.66m).

An exceptional provision of £514,000 was made for debtors and stock, partly relating to the previous year. This was explained as "arising from the breakdown of control over accounting procedures." Interest charges increased more than tenfold to £438,000 (£37,000).

Mr Keen resigned "to concentrate on his role as chairman of Corton Beach," the USM-quoted motor, food and leisure group which has a 22 per cent stake in Propeller.

The rights issue – at 10p per share, the same as Friday's close – should raise £2.25m.

Tiphook listing in Frankfurt

From today the shares of Tiphook will be listed in Frankfurt, to reflect the company's growing presence in Europe particularly in the expanding German market.

Mr Robert Montague, chairman, believed that entry by the UK into the ERM would facilitate interest from investors, and make Tiphook less vulnerable to sentiment based previously on the performance of the UK economy alone.

The UK accounted for 25 per cent in sterling terms of Tiphook's turnover from the core divisions. About 10 per cent was from Germany.

Moves for cash in Willis Faber US bid

By Nikki Tait in New York and Richard Lapper in London

ARBITRAGEURS, some of whom face large losses as a result of the refusal by the directors of Corroon & Black to consider a $40-a-share cash offer from Aon Insurance and pursue a lower paper bid from Britain's Willis Faber, were last week claiming there has been "substantial" interest in a mechanism which would get them cash for their shares.

However, both Willis Faber and Corroon remained confident the merger would go ahead. Willis shareholders have already given it a green light, and Corroon' are set to vote in New York this morning.

To get cash, Corroon holders must ask to have the value of their shares "appraised" by the courts, traditionally a very lengthy process.

Bear Stearns, the US brokerage, has already said it intended to seek this option.

Under the merger terms if shareholders speaking for 9 per cent-plus of the equity seek the appraisal route, Willis Faber is free to walk away from the deal, although this condition can also be waived.

Last week, a couple of arbitrage firms were guessing that the "appraisal" interest might exceed 10 per cent, although Corroon, which has the only reliable figures, declined to comment. However, neither insurance broker expressed doubts about the deal itself. "We're looking forward to the meeting and are pretty confident that we'll have approval," said Corroon on Friday night.

Willis, meanwhile, said it was unconcerned that the appraisal interest might run into double figures. Mr Peter Stevens, head of corporate affairs, said the filings would make no difference to the deal.

"We would be required to pay out to those who are prepared to stick the course," he commented, "But many of them might change their minds in any case."

And even some of the angriest arbs were doubtful that the deal would be voted down, although they suggested the "no" vote could be hefty. The two companies start with the advantage that Corroon's managers and employees own 30 per cent of the stock.

In what seemed a desperate last throw, one arbitrageur suggested the deal round might still face legal hassles.

According to the latest Corroon document, complaints filed in New York and Delaware appeared to have been settled in principle, but individual shareholders could still opt out of such agreements, he noted. However, it seems unlikely that either company would allow this to prevent the deal moving ahead.

Launch for Smaller Companies Investment

By Philip Coggan

THE SMALLER Companies Investment Trust is being launched today via a placing on the main market by Guinness Mahon and Durlacher West.

The launch follows a long period in which UK smaller company shares have under-performed blue chips. But the directors of the company believe there has been "an over-reaction against the smaller company sector in which the adverse fundamental factors have been more than discounted in the price of the securities."

Smaller Companies is initially raising £15m. Three million units have been placed at £5 each with each unit made up of five ordinary shares and one warrant attached. The warrants give the holder the right to subscribe for one new share at 100p in the period 1995-98.

Managers of the trust will be Stronghold Asset Managers, a subsidiary of Principal Hotels, the former AC Holdings. The directors include Mr Alan Clements, finance director of Imperial Chemical Industries, and Mr Philip Chappell, adviser to the Association of Investment Trust Companies.

Dealings are expected to start on Thursday.

LAST WEEK'S CROSS BORDER DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Fiat (Italy)/ CGE (France)	Share and business swaps	Telecoms to rail equipment	£1.5bn	Startling strategic link
International Investor group	Home Insurance (US)	Insurance	£535m	Sale by troubled AmBase
Pepsico (US)	Empresa Gamesa (Mexico)	Biscuit making	£158m	Pepsi expands snack business
Mobil (US)	Tucker Hardwares (US)	Plastic household goods	£97m	Hanson sells a Kidde asset
CWB Capital Partners (UK/Germany)	Arjo Group (Sweden)	Hospital equipment	£85m	CWB Capital's first deal
Rothman's International (UK)	PJ Carroll (Ireland)	Cigarettes	£67m	Agreed bid by existing shareholder
MTM (UK)	Hardwicke Chemical (US)	Chemicals	£59m	Anti-recession purchase
Cie Générale des Eaux (France)	Colne Valley & Rickmansworth water companies	Water supply	£74.6m (total)	DTI approves triple merger with Lee Valley
General Motors (US)	Diavia & Aura (Italy)	Car parts manufacture	£35m	GM takes 75% stake
Banesto (Spain)	Bodegas AGE (Spain)	Wine exporting	£10m	Guiness completes wine disposals

Strategy was the key word in a hectic week for international M&A, writes Brian Bollen. The biggest new deal was clearly the complex share and business swap between Fiat of Italy and France's Compagnie Generale d'Electricite, one of Europe's most significant cross-border corporate links so far.

The neat fit of businesses marks the start of a long-term strategic alliance and gives Fiat the chance to concentrate on its core automotive businesses. It also boosts further CGE's telecommunications operations and unites two major suppliers of railway equipment in the run up to 1992 and Europe's single market.

The alliance also seems to have resurrected doubts in Italy about the future of the country's economy and its ability to compete in European and world markets. General Motors demonstrated a degree of confidence in Italian industry with its purchase of 75 per cent of Diavia and Aura, makers of car air conditioning equipment. This is seen as an important growth market in western Europe.

US soft drinks maker Pepsico's purchase of Mexican biscuit maker Gamesa reflects its strategy of expanding in snack foods, the fastest-growing part of its operations. Pepsico said it was attracted to its second-largest international food acquisition by Mexico's economic progress and its government's commitment to free market policies.

Swedish determination to expand internationally was further illustrated by the involvement of Trygg-Hansa in a bid for US-based Home Insurance Co. Sweden's second-biggest private insurance company forms part of an international consortium which has acquired Home Insurance, put up for sale earlier this year by the troubled AmBase Corporation.

Source: FT Mergers & Acquisitions International

COMPANIES AND FINANCE

Canadian banks predict merger of larger institutions

By Bernard Simon in Toronto

CANADA'S banking industry appears to be smoothing the way for a giant merger or take-over involving some of the country's biggest financial institutions.

Ms Helen Sinclair, president of the Canadian Bankers Association, told a group of international bankers in Montreal that the federal government's recent proposals for financial services reform seem to reverse a long-standing aversion to mergers of large financial institutions.

"Our interpretation of the new policy – and our fervent hope – is that in the future the government won't automatically preclude the merger of two large institutions by sole reason of their size."

She noted that Canada's six big banks, some of which used to be in the top rank of international banks, have been overtaken in size by many of their foreign competitors. The biggest bank, Royal Bank of Canada, has assets of about C$125bn (US$108.6bn). While still among the top half-dozen North American institutions, it is now dwarfed by many Japanese and European banks.

Ms Sinclair said she had no knowledge of any mergers under consideration. But many observers of the Canadian banking industry have predicted an amalgamation within the next few years.

The two banks most often mentioned as potential merger candidates are Bank of Nova Scotia, which has significant management problems, and Quebec-based National Bank of Canada, the smallest of the six.

The government said its proposals, published late last month, "create a framework for strong national institutions serving the Canadian interest. By opening new avenues of growth for Canada's financial institutions, the policy will strengthen their ability to meet the new challenges that have evolved in the global marketplace".

The last significant merger in the Canadian banking industry took place almost 30 years ago with the creation of what is now Canadian Imperial Bank of Commerce.

Olympic Airways plans sale of 49% stake

By Kerin Hope in Athens

OLYMPIC Airways, the state-owned Greek carrier, is prepared to sell a 49 per cent stake to another airline, according to a senior company official.

The airline is already in touch with several European airlines who have expressed interest, among them Swissair and the Dutch carrier KLM. However, given Olympic's accumulated $700m debt and expected losses this year of more than Dr25bn ($166m), no early decision is foreseen.

Assets total $600m and annual turnover is almost $1bn. But with more than 12,000 employees, the company is also considered by analysts to be heavily overstaffed.

The airline is obliged to maintain flights to remote Aegean islands during the winter months. Olympic has a fleet of 32 aircraft, mostly Boeing and Airbus, which is gradually being renewed under an $800m purchase plan launched earlier this year.

The carrier's meals subsidiary, Olympic Catering, is already up for sale. With losses forecast at Dr6.6bn this year, half its 2,000 workforce was dismissed last month.

Citicorp to lodge appeal against Fed insurance ruling

By Nikki Tait in New York

CITICORP, one of the largest of the US commercial banks, plans to lodge an appeal against the recent decision by the Federal Reserve Board which bars it from continuing insurance activities at its Delaware unit, a Citicorp spokesman said.

Citicorp said it had filed notice of appeal with the 2nd Circuit Court of Appeals in Manhattan.

The Fed made its ruling on September 4, following a change last May in Delaware law that permitted banks to sell insurance nationwide out of their Delaware subsidiaries.

Under the terms of that legislation, assets, liabilities and records of the insurance units had to be kept separate from those of the bank.

In addition the banks were limited to investing no more than 25 per cent of total capital, surplus and undivided profits in insurance operations. Moreover, there was a companion banking bill which limited banks' marketing operations to Delaware residents.

But the insurance industry, worried about the encroachment of the banks on to its own territory, spent two years fighting the Delaware bill.

It claimed that the banks would bring unfair competition to a market which is already highly competitive.

Analysts said that the inability to sell insurance would make little difference to Citicorp, or other banks, in the short-run.

However, in the longer term, insurance operations could potentially be an important source of income for banks.

JCI claims South Deep likely to be low cost

By Philip Gawith in Johannesburg

JOHANNESBURG Consolidated Investments said that not only was its South Deep project area "probably the largest and most important known gold orebody remaining to be exploited," but it was also likely to support one of the lowest-cost mines in South Africa.

It estimates gold could be produced at only R17,900 ($6,992) a kilogram, compared with the industry average of R25,000. The gold price is currently about R32,000 a kilogram.

The information accompanies the listings prospectus of the South Deep Exploration Company (Soudex) which will be the exploration vehicle for the project.

South Deep, adjacent to JCI's Western Areas mine, will be raising R231.6m ($90.46m) through a rights offer to fund continued exploration and mine development at the project.

The formation of Soudex is part of a transaction which includes the financially ailing Western Areas mine ceding its rights in the South Deep project as a way of clearing its debts.

Mr Kennedy Maxwell, chairman of JCI's gold and uranium division, said that they considered that South Deep was a "most extraordinary and exciting project".

He stressed, though, that no decision would be taken about opening the mine before the end of 1991 as the group wanted to be as sure as possible about the project.

He added that the total resource in the South Deep project area was over 780m tonnes, which translated into 116m tonnes of mineable ore after applying a mining cut-off grade.

The in situ grade of this ore was 9 grams of gold per ton and the recovery grade would be in the order of 7.8g/t.

At an estimated milling rate of 180,000 tonnes per month the mine would have a life of about 40 years.

Mr Maxwell said that the mine would cost about R2.2bn in today's terms, but cash requirements would be around R1.8bn as the mine would earn about R400m revenue in its first seven to eight years of operation.

UAL staff group says it has plan to put to board

UNITED Employee Acquisition, the company organised by United Airlines staff with a view to a buy-out of the US carrier, yesterday said it has come up with a proposal to put to the UAL board tomorrow, writes Our Financial Staff.

The offer will not include bank financing. The cash portion would come from vendor financing, sale/leasebacks and other equipment financing, employee investments and cash on hand. Mr Gerald Greeenwald, chief executive of the buy-out group, said: "While we are not prepared to put a precise value on the proposal, we are confident that such value is substantially in excess of the current market price of UAL stock." UAL stock closed on Friday at $103⅝, down $2⅝.

Rhône-Poulenc expects earnings per share to fall

RHONE-Poulenc, the French chemicals group, expects earnings per share to decline to about FFr40 in 1990, compared with FFr66.1 in 1989, according to Mr Jean-Pierre Tirouflet, its chief financial officer, Reuters reports.

Mr Tirouflet said the company might cut its yearly dividend by 10 per cent in 1990 due to expected lower earnings. In 1989 the group paid an annual dividend of FFr33.75 per share. He said that while the company would not reach its target of 15 per cent earnings per share growth in 1990, it expected that goal to be reached by 1992 or 1993 due to its recent acquisitions.

Mr Tirouflet said the fall in earnings was mainly due to lower profits in its Brazilian business and currency differences. He also cited charges from the company's acquisitions including the 68 per cent interest in Rorer of the US.

He said the company's divestiture plan was continuing.

Piaggio takes 26% stake in India's LML

By Haig Simonian in Milan

PIAGGIO, the Italian engineering company which makes Vespa scooters, has taken a 26 per cent stake in LML, the quoted Indian motor-scooter maker, as part of a joint venture to develop the production of two- and three-wheeled vehicles in India.

The Italian company, which has had a 5 per cent interest in LML since October 1989, is paying about $5m for the additional shares, which will come from a special capital increase reserved for Piaggio.

LML, based in Kanpur, has produced a variety of Vespa models under licence since 1982. It accounts for 20 to 25 per cent of the Indian market in motor-scooters.

Mr Gustavo Denegri, Piaggio's chairman, said the deal would allow the Italian company to expand in India and in conjunction with LML, encourage exports to other markets in south-east Asia and Africa.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

ERM elation set to boost trading

SPECULATION about further cuts in base rates, together with the euphoric aftermath of Britain's entry into the European exchange rate mechanism (ERM), looks likely to boost trading in gilt-edged securities over the next few days.

After Friday's announcement about ERM entry, coupled with the decision to cut interest rates by 1 percentage point from today, prices for gilts shot up in a few hectic minutes.

The benchmark Treasury 9 per cent bond maturing in 2008 jumped by roughly two points to close on Friday night at above 86, well up on the level of 83½ a week before.

The announcement breathed new life into a gilt market that had become depressed and moribund over the past few weeks.

But to what degree the ERM elation will continue to buoy the market in the longer term is difficult to judge.

Gilts gained on Friday night partly because many investors believe they can look forward to further interest rate cuts. That should reduce gilt yields, particularly for short-duration bonds, and increase prices.

Second, many fund managers – especially from outside the UK – are likely to look at gilts more favourably with sterling buttressed by Britain's ERM membership.

A third reason for gilts suddenly looking a better bet from an investors' point of view concerns the impact of Friday's ERM announcement on likely inflation trends.

UK inflation, running at more than 10 per cent a year and roughly twice the west European average, has been perceived as a big stumbling block to early ERM entry.

The fact that Britain is now part of the mechanism sends two signals – one direct, the other indirect – about inflation. Both are helpful to the gilt market.

Over the longer term, Britain's joining the ERM should tie the UK's economy closer to the other large European countries – Germany in particular.

In theory this should mean UK wage settlements are closer to the European average and dampen inflation resulting from excessive pay rises.

ERM entry at the relatively high central rate of DM2.95 should make imports cheaper, also helping the inflation battle.

The indirect message is that the government appears to believe that, on the evidence of changes in the money supply and other economic indicators, it is getting UK inflation under control. Otherwise Mrs Thatcher, for one, would not have agreed to Britain joining the ERM.

The political impact of this general statement about inflation, whatever the realities of the matter, will have some impact on guiding expectations in the gilt market about retail price trends in the next year or so.

The indirect message is that the government appears to believe, on the evidence of changes in the money supply and other economic indicators, it is getting UK inflation under control.

The immediate outlook for gilts is linked to a number of factors related to the ERM question:

● More interest-rate cuts might be on the way. Some economists believe the government might bring the base rate down to as little as 12 per cent by the end of the year.

Cuts in rates of this kind might be forced on Mr John Major, the Chancellor, possibly by further signs of an impending recession.

Another aspect is that sterling's new-found stability within the ERM is likely to attract large capital inflows via the foreign exchange markets.

Some think that the inflows could force the pound against its upper limit in the ERM band. Interest rate cuts would have to follow to make the pound less attractive.

Speculation about further interest-rate cuts is one reason why gilt prices at the shorter end of the market are likely to continue to increase over the next few days, with yields going down.

The prices of short-dated bonds are influenced largely by the relative attractiveness to investors of putting their money into ordinary bank deposits, rather than gilts.

It follows that if base rates look like continuing on a downward path, fund managers have less reason to favour bank deposits and will regard gilts in a better light.

With prices of long-dated bonds less affected by discussion about likely interest rate adjustments in the near term, all the signs are that the shape of the yield curve for gilts will change in the next few months. The downward slope – with yields higher at the short end – will flatten out as investors start to expect a return to lower interest rates.

● Cuts in interest rates have a double-edged impact on inflation. One is positive, the other negative.

The 1 per cent cut already announced will influence the UK price-rise index almost immediately, by reducing the size of homebuyers' mortgage repayments.

This should mean that – even though next Friday's announcement of UK retail-price changes for September will almost certainly see little change in the annual inflation rate – inflation will start to drift down by the end of the year.

But the easing in interest rates could expand overall demand levels, giving inflation an unwelcome kick in the other direction. The government hopes, however, that the high exchange rate will have a restraining effect on any price rises.

Another factor that may limit any acceleration in price-rise trends due to a relaxation on interest rate policy, is the underlying level of demand in the economy.

On the evidence of surveys from industry, this is generally reckoned to be low.

Such a state of affairs will probably be confirmed today when the government is likely to announce that average prices of manufactured goods have risen over the past month by a tiny amount.

● New gilts issues by the Bank of England may be made more likely by ERM entry. The gilt market has been starved of issues since October 1988, a consequence of the government's policy of repaying national debt rather than running a deficit on public spending. Anything that breaks this dry spell would help the market by boosting the availability of gilts and increasing trading.

New gilts issues over the next six months are already highly probable. That follows from the higher than expected spending by many government departments and from the fact that the Treasury is this year likely to gain far less tax income than it would have liked – one effect of the business slowdown.

But the likelihood of new gilts hitting the market in the near future has been given a firm boost by ERM entry. Assuming that due to foreign-exchange speculation the pound rises to somewhere near its top ERM level, the government has another weapon besides interest rate cuts which it can use to depress sterling.

In such a circumstance, the Bank of England would be forced to sell pounds to dampen demand, increasing its own foreign-exchange reserves and in turn expanding the volume of sterling on deposit within the UK banking system.

The amount of liquidity in the system could become too high, in which case the government might be forced to soak up the excess pounds by issuing new gilts.

Peter Marsh

NRI TOKYO BOND INDEX

December 1983 = 100	4/10/90	Average yield (%)	Last week	12 wks ago	26 wks ago
		PERFORMANCE INDEX			
Overall	141.86	8.43	140.47	145.85	141.94
Government Bonds	138.61	8.34	136.97	143.49	139.62
Municipal Bonds	143.59	8.40	141.84	147.97	143.23
Govt.-guaranteed Bonds	146.28	8.53	145.01	150.39	145.63
Bank Debentures	140.85	8.48	139.73	143.00	139.64
Corporate Bonds	144.43	8.58	143.51	148.80	145.38
Yen-denom. Foreign Bonds	149.75	8.76	149.52	154.83	151.96
Government 10-year†	7.65		7.93	6.73	6.88

† Estimated par yield Source: Nomura Research Institute

US MONEY AND CREDIT

Mixed feelings greet Bush budget

"I'M asking in my heart," sang Gertrude Lawrence, several decades ago, "what now?" Buffeted by last week's events, US bond traders might be tempted to join in the refrain.

After weeks of waiting and watching every nuance and nudge from Washington with intense interest, the bond markets were finally rewarded by a US budget agreement at the beginning of last week.

Quite what this deal amounted to, was a matter of dispute between Wall Street analysts. A fair number viewed it as spurious, based on shaky economic assumptions.

"Incredible and farcical," claimed Mr Robert Brusca, chief economist at Nikko Securities, arguing that the inability of the agreement to cut even $100bn from spending within year one scarcely boded well for the aim of a $500bn cut over five years.

But others were more complimentary: "We are impressed by the budget deficit package that has been developed by the budget summit," suggested Donaldson, Lufkin & Jenrette, the Wall Street brokerage.

"It achieves a $500m deficit reduction over five years... it reduces the fiscal 1991 deficit as a percentage of GNP to below the fiscal 1990 estimated level even though the economy is in recession; it establishes spending caps; and, the economic assumptions for 1991 are generally realistic."

The bond market, meanwhile, was prepared to pay these niceties a passing glance and scythe to the heart of its own concerns. The package, it decided, was probably sufficiently credible to permit interest rates to ease. That, in turn, was enough to push the bellwether 30-year Treasury bonds a full point higher on Monday, to yield 8.84 per cent, against around 9.16 per cent a week earlier. Three-month Treasury bills, were sold at an average discount rate of 7.18 per cent in the weekly auction, the lowest level in nearly two years.

Moreover, in a rare piece of fortuitous timing, Saddaam Hussein decided to issue more conciliatory noises; the outlook for oil prices, and by implication inflation, improved, and that too added to the bond market's cheerful demeanour.

Midweek, the market had two official signals to deal with. On the one hand, the Federal Reserve's policy-making Open Market Committee met, but appeared to decide the time was still not ripe for any action on interest rates.

Minutes of the previous end-August meeting, released late on Friday, suggested members had different assessments of the inflationary danger.

They had been prepared to leave policy unchanged for "some initial period", although there was an underlying inclination to ease in response to recessionary trends evident prior to the Kuwait crisis.

Then, on Wednesday, there was the more palpable encouragement from Mr Alan Greenspan, chairman of the Federal Reserve. The budget package was indeed "credible" – the condition which he had previously suggested was necessary before any interest rate movement could take place. Again, bond prices moved higher, but on this occasion their gains were subsequently clipped by a new surge in oil futures.

But by the weekend, the budget deal was being kicked again around the political arena. The House of Representatives voted it down by a wide margin and all the market's expectations were on hold. Bond prices greeted the news with some sharp downward movements in early trading on Friday, but had largely corrected this by the time the market closed.

Helping sentiment was the September employment data, which showed the civilian jobless rate moving up by 0.1 percentage point to 5.7 per cent.

All proof of the economic slowdown is welcome because of pressure it puts on interest rates, even if, in this case, the enthusiasm was tempered by accompanying news of a 0.5 per cent rise in average hourly earnings last month. And there matters stand. The prevailing conviction is that rates are coming down and that the recessionary concerns are starting to gain an edge over the inflationary ones.

That, in turn, amply explains the week's overall reduction of some 16 basis points in the long bond yield, closing at 8.78 per cent, while shorter end of the market fared even better.

Nikki Tait

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	7.94	8.39	8.00	9.92	7.94
Three-month Treasury bills	7.25	7.34	7.59	9.11	7.20
Six-month Treasury bills	7.42	7.51	7.73	9.37	7.38
Three-month prime CDs	8.10	8.19	8.02	10.36	7.65
30-day Commercial Paper	8.00	8.15	7.90	9.95	7.87
90-day Commercial Paper	7.85	8.05	7.90	10.05	7.70

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	99⅞	+⅜	8.51	8.68	7.73
20-year Treasury	104⅜	+5⅛	8.81	8.80	9.04
30-year Treasury	99⅝	-⅛	8.79	8.94	8.98

Money supply: In the week ended September 24, M1 rose by $1bn to $821.7bn

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8 7/8 93	150	99¼	+⅛	8.95
ABN 9 1/8 94	200	100¼	+⅛	9.03
AETNA LIFE & CAS 7 3/4 16	200	97	+⅛	8.02
ALBERTA PROVINCE 8 5/8 96	750	97¼	+⅛	9.28
ALBERTA PROVINCE 9 3/8 93	600	101⅛	+⅛	9.08
AMERICAN EXPRESS 0 00	450	37¼	-⅛	10.22
AMERICAN GENERAL 9 3/4 95	100	97¼	+⅛	10.31
[illegible]				

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
AIR CANADA 6 1/4 PERP	300	59	-2	10.59
ASIAN DEV BANK 6 10	100	81¼	+¼	7.89
AUSTRIA 4 5/8 98	100	86¼		7.08
COUNCIL EUROPE 4 3/4 98	250	84	+¼	7.67
EEC 5 1/2 00	100	86	-1	7.52
EIB 5 3/4 93	100	95¾	+½	7.44
FINLAND 5 3/8 95	150	91¾	-2¼	7.45
GENERAL MOTORS 7 1/2 95	100	101	-½	7.23
[illegible]				

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.
Closing prices on October 5

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Few will celebrate yet on base rate cut

TODAY'S cut in interest rates will save debt-strapped British companies millions of pounds in interest charges. But, with bank base rates still at 14 per cent, few will be celebrating.

However, sterling's membership of the exchange rate mechanism of the European Monetary System may suggest to some companies a way of reducing interest charges: borrowing in D-Marks.

After the peseta joined the ERM, Spanish companies did just that, further exaggerating the inflows of capital that have proved such a headache for the Spanish authorities.

Spain's companies were further encouraged to borrow abroad by the relatively expensive credit being provided by their domestic banks, partly because they are required to hold a huge proportion of their assets with the central bank.

Although this does not apply in the UK case, companies that do not feel a sterling devaluation in the ERM is imminent may well take the view that short-term borrowings in D-Marks are not too risky.

Credit worries in both the US and UK have led the world's commercial paper markets to focus even more carefully on credit risk, and many lesser credits now find the commercial paper markets closed to them. But it's easy to forget that for many companies, these markets offer an important source of funding.

Booker, the UK food and agricultural concern most widely known for its sponsorship of the eponymous literary prize, has just relaunched its sterling commercial paper programme. The £150m programme contains two interesting features. The programme has brought in Barclays de Zoete Wedd, Midland Montagu and NatWest Capital Markets – underlining the increasing importance of UK clearing banks in sterling CP market. Also, probably for the first time in a sterling CP programme, Booker will pay its banks fixed fees for placing the paper, instead of expecting them to make a "turn" out of the difference between the buy-in price and the selling price.

Fixed fees are usual in the US market, but have not made much of an inroad into the Eurocommercial paper and sterling CP markets.

That may change however, as competition among banks in the CP markets dwindles and as, in these difficult times, companies become more concerned about their relationships with banks.

Sterling, the US subsidiary of Ratners, the UK jewellers, has launched a $300m revolving credit facility. Ratners, which bought Sterling in 1987, is in the process of completing its acquisition of Kay Jewellers, but the revolver is not related to either acquisition.

The three-year facility pays a margin of 25 basis points over the London interbank offered rate for the first 50 per cent of the borrowing; if more than 50 per cent of the facility is taken up, the margin rises to 35 basis points above Libor. The commitment fee is ⅛ point.

Chase Investment Bank and Barclays Bank are joint arrangers of the transaction, with Barclays also acting as agent. Front end fees are 10 basis points for lead managers, invited for $25m each, and 7½ basis points for managers, at $15m apiece. The facility is guaranteed by the Ratners Group. If the consolidated interest cover of Ratners falls below four to one, the margin rises by ¼ point and the commitment fee by ⅛ point. The facility may be drawn by Sterling and any of its subsidiaries, and by Kay, once the acquisition is completed.

Cassa di Risparmio di Roma has signed an agreement for an Ecu325m term loan through Manufacturers Hanover, bringing to Ecu525m the funds raised in the market this year. The banking group, the fifth largest in Italy, is paying 25 basis points over Libor for the funds. Last repayment will be in 11 years time.

In Scandinavia, a credit for Veitsiluoto Oy of Finland, arranged by Mitsubishi Bank and Union bank of Finland, has been increased to $110m after success in syndication, while National Westminster, Amsterdam-Rotterdam, Industrial Bank of Japan and Svenska Handelsbanken are arranging a credit for Svenska Cellulosa.

Stephen Fidler and Tracy Corrigan

JUNK BONDS

Traders contend with the good, the bad and the ugly

AUGUST and September were the worst months ever for the US junk bond market. Absolute bond yields are at an all-time high, as are yield margins relative to US Treasuries.

Since Iraq's invasion of Kuwait, Salomon Brothers Composite High-Yield Index fell 4.72 per cent in August and 5.91 per cent in September.

The Middle East crisis appears to have triggered the latest plunge by bringing to the forefront concerns about economic recession, a harbinger of doom for junk bonds (debt issued by sub-investment grade, often highly leveraged companies). On average, junk bonds are now yielding around 18⅞ per cent, and the yield spread over treasuries has widened about 200 basis points to 1,000 basis points.

The tiering of the market, crystallised by the the demise of junk bond firm Drexel Burnham Lambert, has accelerated further.

"It's the good, the bad and the ugly," said Mr Ken Monaghan, director of research at Salomon Brothers International.

Salomon's "safest of high-yields" portfolio consisting of higher quality names such as Time-Warner and Safeway outperformed the rest of the market. These companies are generally less leveraged, often because the debt is not the product of leveraged buy-outs or recapitalisations.

There has also been increasing differentiation between sectors, with heavy industry and casinos highly vulnerable, while energy and diversified consumer companies have proved more resilient.

The scale of recent losses seems to have changed investors' perception of high-yield products once and for all. Much of the debt is now trading like equity, creating fresh investment opportunities.

"An instrument which yields 15 per cent is clearly a debt instrument. A 30 per cent yield tells you that payments and redemption may not be timely and that has to be treated as an equity-type investment," observed Mr Monaghan.

Bondholders know that their obligations stand to be paid off first and they hold a strong suit if a company is forced to renegotiate its debt.

Several large funds have been put together over the past few months. For example, Goldman Sachs recently completed a $783m fund to invest in the debt of distressed companies. Unlike some other funds, Water Street Corporation Recovery Fund can buy bank debt as well as junk bonds.

"Our interest is in persuading a company to restructure in a way that is profitable for the fund's investors," said Mr Mikael Salovaara, the Goldman partner in charge of the fund.

This may mean that new debt or equity is issued in place of junk bonds, or that the bonds are redeemed.

A series of funds is now being developed, mainly by institutions and large private investors rather than investment banks, to play on various aspects of investment in distressed companies.

Another way of investing in the junk bond market is through collateralised bond obligations (CBOs), a number of which are also said to be in the works.

A portion of equity is used as collateral to borrow a large portion of the funds which go to create a junk bond portfolio. The interest flow from the bonds pays the interest on the loan, while any surplus is pocketed by the equity investor. Any losses on the portfolio, however, are absorbed by the equity portion.

For traders, too, there have been opportunities. Some have tried to take advantage of the market's weakness by shorting issues, although this has been a difficult exercise in a market which is tough to trade at the best of times.

According to Mr Robert Long, a managing director of First Boston, a new type of investor has entered the market, while traditional buyers are sidelined.

"Money is coming out of equity into high-yield debt [of a particular company] because bonds rank above shares," said Mr Long.

The possibility of a credit crunch adds to the complexities of choosing which junk bond to buy. Some companies generating more than adequate cash flows now will need to refinance their debt through bank loans in two or three years.

"We are telling clients to stay away from companies which will need to refinance" one investment banker said, because of the high risk that banks will be unwilling to lend.

The fact is that the market remains crowded with pitfalls. "You have to be able to sort out the gold from the fool's gold," said Mr Salovaara of Goldman.

Tracy Corrigan

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	2,799.4	0.0	530.0	13,757.3
Prev	1,023.2	0.0	5,818.0	16,724.5
Other	1,545.1	8.1	0.0	4,640.1
Prev	1,738.0	2.6	662.2	5,726.5

Secondary Market

	Straights	Conv	FRN	Other
US$	20,047.3	964.9	9,408.3	9,887.1
Prev	20,902.8	905.9	11,160.6	7,066.2
Other	25,270.3	1,726.3	4,980.8	32,569.5
Prev	20,469.9	1,217.3	5,102.0	33,336.7

	Cedel	Euroclear	Total
US$	19,195.8	38,198.5	57,394.3
Prev	19,677.4	43,923.8	63,601.2
Other	25,844.5	44,495.7	70,340.2
Prev	26,530.9	41,724.3	68,255.2

Week to October 4, 1990

Source: AIBD

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Shimano Industrial‡◆	200	1994	4	5	100	Nikko Secs.(Europe)	5.000
Energie Beheer Ned'land◆	300	1995	5	9	99¾	Morgan Stanley Int.	9.064
Shinko Electric‡	110	1994	4	(5⅛)	100	Nomura Int.	-
Neturen Co.‡	50	1994	4	5½	100	Daiwa Europe	5.500
Niigata Eng.‡◆	150	1994	4	5	100	Yamaichi Int.	5.000
Nat.Westminster Bk(o)◆◆	250	2000	10	(o)	100	Salomon Bros.	-
EIB(n)†◆	56.516	2008	18	(n)	100	JP Morgan Secs.	-
Mitsubishi Capital(k)◆	15	2000	10	(k)	102	Mitsubishi Fin.	-
Mitsubishi Capital(l)◆	9	2000	10	(l)	102	Mitsubishi Fin.	-
Mitsubishi Capital(m)◆	26	2000	10	(m)	100.30	Mitsubishi Fin.	-
Nippon Columbia Co.‡◆	100	1994	4	5	100	Nomura Int.	5.000
Finnish Exp.Corp◆	300	1993	3	8¾	101.17	Morgan Stanley Int.	8.292
AUSTRALIAN DOLLARS							
IBM Australia◆	75	1993	3	14	101.95	Westpac	13.172
NEW ZEALAND DOLLARS							
Shell Australia◆	60	1994	4	14	102	Hambros Bk	13.323
D-MARKS							
Nippon Zeon Co.‡◆	160	1994	4	5¼	100	Deutsche Bk	5.250
SWISS FRANCS							
Sintokogio Ltd(a)★★§◆	60	1995	-	4¾	100	Bank Leu	4.750
SNT Corp(d)★★§◆	40	1995	-	5	100	Handelsbank Natwest	5.000
Seiren Co.(e)★★§◆	120	1995	-	5	100	Bank Leu	5.000
Europaeische Hypo'bk★★◆	50	1994	-	7½	100⅞	Deutsche Bk (Switz)	7.240
Fujikura Rubber(i)★★§◆	30	1995	-	5	100	Nomura (Switz)	5.000
Canon Copier(j)★★§◆	60	1994	-	5	100	Bca.D'Svizzera Italiana	4.986
Footwork Int.(t)★★‡	100	1995	-	5⅞	100	Bca.D'Svizzera Italiana	5.875
Erdoel-Lagergesellschaft◆	55	1997	-	7¼	101¼	Wirtschafts & Privatbk	7.018
ANA Real Estate(p)★★§◆	62	1995	-	4⅞	100	Nikko (Switz)	4.875
Okura & Co(q)★★§◆	60	1995	-	5	100	Yamaichi Bk (Switz)	5.000
ECUs							
Republic of Italy(r)†◆	1bn	2005	15	(r)	100	Bco. di Roma	-
STERLING							
Asda Finance(w)§◆	73	2005	15	10¾	100	SG Warburg Secs	10.750
Halifax Bldng.Society(s)†◆	250	1997	7	(s)	100	Warburg Secs.	-
CMS No.5(v)†◆	225	2027	37	(v)	100	JP Morgan	-
PESETAS							
EIB(h)◆	10bn	1995	5	14.35	101	Banesto	14.058
LIRE							
Export Devt.Corp Canada◆	150bn	1993	3	12¾	101¼	I.Bancario S'Paolo	12.228
DANISH KRONER							
Kredietbk Int.Fin.◆	300	1995	5	10¾	102	Kredietbank NV	10.219
Fin.Danish Ind.◆	300	1993	3	10¾	101¾	Kredietbank NV	10.046
YEN							
Okobank(f)★★◆	18bn	2000	10	(f)	100¼	Bk of Tokyo Cap.Mkts	-
Skopbank(g)◆	3bn	1999	8¼	(g)	91⅞	Kankaku Europe	-
Unibank◆	1.5bn	1992	2	9	101⅛	Nippon Credit Int.	8.366
LUXEMBOURG FRANCS							
Volvo Finance BV(b)★★◆	500	1993	3	10⅛	101½	BGL	9.527
Postipankki(c)★★◆	750	1996	5.416	10⅛	101.65	Credit Europeen	9.691
Skopbank★★◆	300	1993	3	10⅛	101¾	BCEE	9.428
B'que Indosuez (Paris)★★◆	300	1996	5½	10⅛	102	Banque Indosuez (Lux.)	9.612
Universite of Quebec(u)◆	1bn	1995	5	10⅛	102	BIL	9.603
CL Belgium Fin.(x)★★◆	300	1995	5	10	101.70	Credit Lyonnais (Lux.)	9.557
NedLloyd Beheer BV★★◆	500	1993	3	10⅜	101.95	BGL	9.597

★★Private placement. §Convertible. ‡With equity warrants. †Floating rate note. ◆Variable rate notes. ◆Final terms. a) Put option 31/3/93 110⅛% to yield 8.514%. Conversion premium fixed at 2.55%. b) Fully fungible with existing Lfr1bn deal from October 1990. Non-callable. c) Issue launched 28/9/90. Amount increased from Lfr500mn. Non-callable. d) Put option 31/3/93 109½% to yield 8.552%. Conversion premium fixed at 2.54%. e) Put option 31/3/93 109½% to yield 8.532%. Conversion premium fixed at 2.59%. f) Coupon pays Libor plus ⅛% for first 3 months, then fixed at 8.05% thereafter. g) Currency-linked issue. Coupon pays 25bp over Yen deposit rate for first 3 months, then linked to Yen/Australian dollar rate thereafter. Non-callable. h) Matador issue. Non-callable. i) Put option 31/3/93 109¼% to yield 8.547%. Conversion premium fixed at 2.5%. j) Put option 31/12/92 108⅞% to yield 8.554%. Conversion premium fixed at 2.51%. k) Coupon pays 3-month Libor plus 95bp for first 2 years, then fixed at 10% thereafter. Callable from 22/10/92. l) Coupon pays 3-month Libor plus 80bp for first 3 years, then fixed at 10% thereafter. Callable from 22/10/93. m) Coupon pays 3-month Libor plus 22.5bp for first 2 years then, 24.25 minus 6-month Libor multiplied by 1.5 thereafter. Callable from 22/10/92. n) Coupon pays 10bp over 6-month Libor. o) Initial coupon pays 3-month Libor plus 0.1875% then coupon payments set quarterly by agreement between Natwest and Salomon Bros. In the event that margin cannot be agreed, coupon will pay 3-month Libor plus 0.6%. p) Put option 31/3/93 110¼% to yield 8.703%. Conversion premium fixed at 2.5%. q) Put option March 1993 109½% to yield 8.552%. Conversion premium fixed at 2.52%. r) Coupon pays 3-month Libid. Callable after 2 years. s) Coupon pays ⅛% over 6-month Libor. Callable at par from November 1994 coupon date. t) Early redemption 25/10/91 102% decreasing by ½% semi-annually. u) Euro-flux issue. Non-callable. v) Coupon pays 3-month Libor plus ¼% increasing to Libor plus ½% after 10 years. w) Callable from years 5-8 if share price exceeds 130% of conversion price, then callable at anytime from 8th year. x) Fully fungible with existing Lfr300mn deal from November 1990. Non-callable. Note. Yields are calculated on AIBD basis.

WORLD STOCK MARKETS

INDICES

NEW YORK

DOW JONES	Oct. 5	Oct. 4	Oct. 3	Oct. 2	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
◆Industrials	2510.64	2516.83	2489.36	2505.20	2999.75 (16/7)	2427.48 (27/9)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	89.17	89.11	89.15	89.11	93.04 (3/1)	88.44 (24/9)	—	—
Transport	866.31	869.27	882.77	894.79	1212.77 (6/6)	828.03 (27/9)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	205.42	204.92	202.46	202.78	236.23 (2/1)	190.96 (24/8)	236.23 (2/1/90)	10.50 (8/4/32)

◆Day's High 2544.55 (2528.22) Low 2453.47 (2464.85)

STANDARD AND POOR'S	Oct. 5	Oct. 4	Oct. 3	Oct. 2	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	311.50	312.69	311.40	315.21	368.95 (16/7)	300.97 (27/9)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	367.04	368.42	367.37	371.08	437.37 (16/7)	355.12 (27/9)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	20.79	21.06	20.89	21.44	31.87 (3/1)	19.88 (27/9)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	170.70	171.33	170.80	172.59	201.13 (16/7)	165.36 (27/9)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	306.48	308.14	309.25	309.63	382.45 (5/1)	305.43 (27/9)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	347.36	349.89	351.45	356.39	469.60 (16/7)	341.19 (27/9)	485.73 (9/10/89)	54.87 (31/10/72)

	Sept.28	Sep.21	Sep.14	year ago (approx.)
Dow Industrial Div. Yield	4.14	4.03	3.95	3.74

	Oct. 3	Sep.26	Sept19	year ago (approx.)
S & P Industrial div. yield	3.42	3.49	3.29	2.71
S & P Indl. P/E ratio	14.85	14.55	15.12	14.29

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Hanson	3,290,000	19⅞	+ ⅞
Philip Morris	2,366,000	47¼	- ¼
Waste Mngmt.	2,095,900	32	- ¼
Unisys	1,994,700	3⅞	—
Gen. Electric	1,959,900	54¼	- ¼
Wal-Mart	1,958,200	26¼	- ¼
IBM	1,572,000	108¼	+ ¼
Citicorp	1,498,500	14¼	+ ¼
Pub.Serv.E.G.	1,446,900	20½	+ ⅛
Pepsico	1,397,200	24¼	- ½

TRADING ACTIVITY

† Volume Millions	Oct. 5	Oct. 4	Oct. 3
New York	153.980	145.410	135.490
Amex	12.046	9.225	11.223
NASDAQ	(u)	104.989	106.029
Issues Traded	1.951	1.964	1.961
Rises	588	729	957
Falls	903	778	956
Unchanged	460	457	448
New Highs	3	4	5
New Lows	165	144	99

CANADA TORONTO

	Oct. 5	Oct. 4	Oct. 3	Oct. 2	1990 HIGH	1990 LOW
Metals & Minerals	2852.73	2869.50	2865.50	2888.45	3453.05 (4/1)	2850.80 (23/9)
Composite	3166.86	3175.95	3179.50	3191.38	4009.47 (3/1)	3159.37 (28/9)
MONTREAL Portfolio	1688.27	1694.35	1694.94	1699.84	2060.90 (3/1)	1670.81 (27/9)

Base values of all Indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto Indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Oct. 5	Oct. 4	Oct. 3	Oct. 2	1990 HIGH	1990 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1356.8	1368.5	1385.4	1406.1	1713.7 (12/1)	1356.8 (5/10)
All Mining (1/1/80)	676.6	680.7	689.0	699.1	860.8 (5/1)	676.6 (5/10)
AUSTRIA						
Credit Aktien (30/12/84)	419.12	428.71	431.91	439.59	703.29 (19/3)	400.98 (25/9)
BELGIUM						
Brussels SE (Cash Mkt) (1/1/80)	5113.78	5123.52	5134.41	5162.93	6599.43 (12/1)	4959.99 (25/9)
DENMARK						
Copenhagen SE (3/1/83)	(u)	338.42	339.74	339.46	398.29 (20/7)	331.41 (27/9)
FINLAND						
Unitas General (1975)	431.5	432.8	432.8	430.4	677.3 (23/1)	425.8 (26/9)
FRANCE						
CAC General (31/12/82)	421.88	425.68	426.10	431.76	564.62 (30/5)	430.18 (26/9)
CAC 40 (31/12/87)	1543.60	1552.74	1566.50	1573.93	2129.32 (20/4)	1485.39 (25/9)
GERMANY						
FAZ Aktien (31/12/58)	608.54	605.54	(c)	617.98	852.32 (19/7)	569.69 (28/9)
Commerzbank (1/12/53)	1728.6	1735.2	(c)	1771.40	2434.0 (3/4)	1628.7 (28/9)
DAX (30/12/87)	1391.76	1422.35	(c)	1444.89	1968.55 (30/3)	1334.89 (28/9)
HONG KONG						
Hang Seng Bank (31/7/64)	2880.45	(c)	2862.55	2905.48	3559.89 (23/7)	2738.24 (1/2)
IRELAND						
ISEQ Overall (4/1/88)	1292.37	1286.14	1256.85	1219.93	1893.10 (22/1)	1207.47 (1/10)
ITALY						
Banca Com. Ital. (1972)	578.10	579.88	579.50	578.68	763.52 (14/6)	554.30 (25/9)
JAPAN						
Nikkei (16/5/49)	22827.65	22278.19	22849.39	22898.41	38712.88 (4/1)	20221.86 (1/10)
Tokyo SE (Topix) (4/1/68)	1688.67	1649.52	1678.05	1668.83	2867.70 (4/1)	1523.43 (1/10)
2nd Section (4/1/68)	3065.27	2994.09	2959.88	2917.02	4477.16 (16/7)	2859.49 (1/10)
MALAYSIA						
KLSE Composite (4/4/86)	470.76	467.32	468.42	475.83	632.22 (1/8)	459.08 (28/9)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	228.8	232.6	235.4	235.2	271.9 (20/7)	228.2 (28/9)
CBS All Shr (End 1983)	168.0	170.8	172.9	172.7	206.3 (3/1)	167.6 (28/9)
NORWAY						
Oslo SE (Ind) (2/1/83)	767.98	781.45	782.93	790.37	915.13 (2/8)	701.67 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	514.80	515.39	549.66	537.77	1160.70 (21/3)	514.80 (5/10)
SINGAPORE						
SES All-Singapore (2/4/75)	312.56	312.72	313.83	319.84	446.87 (16/7)	307.36 (28/9)
SOUTH AFRICA						
JSE Gold (28/9/78)	1524.0§	1552.0	1502.0	1500.0	2230.0 (16/1)	1322.0 (20/6)
JSE Industrial (28/9/78)	2666.0§	2676.0	2655.0	2664.0	3211.0 (6/2)	2640.0 (1/10)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	624.13	(c)	(c)	(c)	928.82 (4/1)	566.27 (17/9)
SPAIN						
Madrid SE (30/12/85)	(u)	219.34	222.57	223.64	309.74 (16/7)	209.37 (28/9)
SWEDEN						
Affarsvärlden Gen. (1/2/37)	968.1	984.6	981.9	1009.5	1329.9 (5/7)	910.0 (28/9)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	643.0	640.8	645.0	646.2	845.5 (13/7)	613.4 (28/9)
TAIWAN**						
Weighted Price (30/6/66)	2771.40	2626.05	(c)	2593.75	12495.34 (10/2)	2560.47 (1/10)
THAILAND						
Bangkok SET (30/4/75)	672.98	671.99	713.85	784.51	1143.78 (25/7)	613.95 (25/9)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	445.5	445.4	446.8	571.0 (4/1)	423.1 (28/9)

**Saturday September 29: Taiwan Weighted Price: (c) Korea Comp Ex. 602.88
§ Subject to official recalculation.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX—1,000, JSE Gold—255.7, JSE 26 Industrials—264.3 and Australia All Ordinary and Mining—500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday 5 October 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Kobe Steel	19.9m	526	+42	Nippon Steel	11.9m	416	+5
Hitachi	13.7m	1,280	-30	Kawasaki Steel	9.9m	401	+2
Honshu Paper	12.4m	4,200	+400	IHI	9.1m	635	+20
MHI	12.3m	710	+8	Tokyu Dept St	8.1m	1,710	+100
Takeda Chml	12.1m	1,730	+30	Kurabo Inds	7.2m	1,420	-30

FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

National Provident Inv Mgrs Ltd (1400)H

48 Gracechurch St, EC3P 3HH 071-623 4200

Unit Name	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-line
NPI American Acc ♥	5	58.20	58.26	61.98	1.80	41103
NPI American Dist ♥	5	54.76	54.81	58.31	1.80	46660
NPI European Acc	5	63.44	63.58	67.64	0.89	41104
NPI European Dist	5	62.46	62.60	66.60	0.89	46661
NPI Far East Acc ♥	5	92.66	93.20	99.15	0.43	41105
NPI Far East Dist ♥	5	92.00	92.53	98.44	0.43	46662
NPI O'seas Acc	5	754.1	757.5	805.9	1.52	41107
NPI O'seas Dist	5	590.4	593.1	631.0	1.52	41106
NPI UK Acc	5	421.3	425.7	452.9	5.16	41109
NPI UK Dist	5	236.0	240.5	255.5	5.16	41108
NPI W'wide Acc	5	61.77	62.48	66.47	0.67	41110
NPI W'wide Dist	5	59.41	60.09	63.95	0.67	46663

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 – 379 – 0444.

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Target Trust Mngrs Ltd (1600)F						
Target Hse, Gatehouse Rd, Aylesbury, Bucks.						
Admin 0296 394000 Dealing 0296 312156						
American Eagle	5	57.97	57.97	61.90	1.24	41482
Australia	5	5.896	5.896	6.314	4.22	41483
Equity	5	136.8	136.8	146.9	5.24	41486
Euro Spec Sits	5	96.37	96.37	103.7	0.67	41487
Financial	5	23.87	24.02xd	25.83	3.36	41488
Global Opps Inc	5	56.78	56.78	61.15	0.00	41489
Global Opps Acc	5	57.21	57.21	61.61	0.00	41490
Gold & Gen Inc	5	39.71	39.71	42.64	0.94	41491
Gold & Gen Acc	5	74.01	74.01	79.47	0.94	41492
Income	5	84.21	84.21xd	90.70	6.84	41493
Japan & General	5	105.1	105.1	113.1	0.00	41494
Preference Share	5	16.92	16.92xd	18.23	14.55	41497
UK Capital	5	74.82	74.82	80.31	4.35	41500
World Income	5	52.18	52.18xd	56.05	6.30	41501
Worldwide Capital	5	143.4	143.4	154.3	3.54	41502
Templeton Unit Trust Managers Ltd (1200)F						
Atholl Crescent, Edinburgh EH3 8HA 031 228 3932						
Global Growth Acc	6	93.74	94.46	101.03	3.71	46671
Global Growth Inc	6	90.06	90.76	97.07	3.71	46672
Global Balanced Acc	6	94.11	94.62	101.19	4.85	46669
Global Balanced Inc	6	87.68	88.15	94.27	4.85	46670
Value Tst Acc	6½	68.22	69.31	74.13	4.64	45942
Value Tst Inc	6½	66.52	67.58	72.28	4.64	46990
Intl Pen & Ch Ucs Inc ♥	2	90.81	92.24	96.84	3.81	46989
Intl Pen & Ch Ucs Acc ♥	2	87.63	89.01	93.45	3.81	41585
Thornhill Unit Trust Managers Ltd (1200)F						
28 St John's Sq, London EC1M 4AE 071-251 6767						
Capital	5	45.36	45.63	48.54	–	47874
Overseas	5	39.38	39.56	42.08	–	43776
Thornton Unit Managers Ltd (1000)F						
33 Cavendish Sq., London W1M 0DH 071-493 7262						
Dealing 071-493 8545						
American Opps	5	42.63	42.63	45.46	0.25	41506
(Accum Units)	5	43.87	43.87	46.78	0.25	41507
Cash	0	50.49	50.49	50.49	14.73	45247
Accum Units	0	50.49	50.49	50.49	14.73	45248
European Opps ♣	5	58.01	58.01	61.86	0.00	41508
(Accum Units) ♣	5	58.33	58.33	62.20	0.00	46366
Far Eastern Opps	5	98.13	98.13	104.66	0.00	41509
(Accum Units)	5	98.76	98.76	105.33	0.00	41510

	Bid Price	Offer Price	Yield Gross	City-line
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
Amer Expt Oct 3	39.0	40.5	2.69	[illegible]
Euro Expt Oct 3	46.5	48.8	2.71	[illegible]
Fixed Int Ex Oct 3	42.7	43.9	11.50	[illegible]
Japan Expt Oct 3	38.6	38.6	0.88	[illegible]
Managed Ex Oct 4	36.4	37.8	5.50	[illegible]
SE Asia Expt Oct 3	55.2	57.9xd	3.64	[illegible]
Sm Cos Expt Oct 3	29.8	31.2	5.31	[illegible]
UK Eqty Ex Oct 3	35.3	37.0xd	4.40	[illegible]
Phillips & Drew Fund Management Ltd				
Small Co's Oct 3	587.8	630.6	5.55	[illegible]
Do Accum	653.7	701.2	5.55	[illegible]
Intl Expt Oct 3	146.6	148.8xd	3.16	[illegible]
UK Index Oct 3	955.0	975.6	5.25	[illegible]
Do Accum	1009	1029	5.25	[illegible]
Convertible Oct 1	75.56	78.08xd	9.1	[illegible]
World ex UK Index Oct 1	611.1	619.2	2.67	[illegible]
Do Accum	611.1	619.2	2.67	[illegible]
Japan Index Oct 1	445.1	451.5	0.8	[illegible]
Do Accum	445.9	452.3	0.8	[illegible]
USA Index Oct 1	752.7	757.8	3.7	[illegible]
Do Accum	763.3	768.4	3.7	[illegible]
Europe ex UK Index Oct 1	774.5	793.4	3.2	[illegible]
Do Accum	786.5	805.6	3.2	[illegible]
Pacific ex Jap Index Oct 1	756.2	779.0	5.6	[illegible]
Do Accum	770.2	793.6	5.6	[illegible]
Managed Exempt Oct 3	86.83	88.38xd	5.31	[illegible]
American Exempt D	100.1	101.9	3.7	[illegible]
European Exempt D	102.8	104.0	3.1	[illegible]
Japan Exempt D	102.8	103.6	0.6	[illegible]
Pacific Basin D	100.8	103.6	3.8	[illegible]
NM Rothschild Asset Management Ltd				
NC Managed	51.5	54.6xd	4.63	[illegible]
NC Property	174.3	191.2	–	[illegible]
J. Rothschild Fund Managers Ltd				
Intl Exempt Accum	117.6	118.6	4.23	[illegible]
Stewart Ivory & Co Ltd				
Saints PPP Aug 13	231.1	243.3	–	[illegible]
Closed to new business				
Thornton Unit Managers Ltd				

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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Norwich Union Asset Management Ltd

PO Box 140, Norwich NR3 1PP 0603 686787

	Bid Price	Offer Price	Yield Gross	Cityline
NUAM Funds				
Managed Fund	59.8	63.0	–	43191
Stock Market Mngd Fund	56.1	59.1	–	43192
Equity Fund	63.7	67.1	–	43193
International Fund	49.6	52.2	–	43194
European Fund	60.1	63.3	–	43195
North American Fund	48.6	51.2	–	43196
Pacific Fund	50.5	53.1	–	43197
Property Fund	87.3	91.9	–	43198
Fixed Interest Fund	51.8	54.5	–	43199
Index Linked Sec Fund	58.2	61.2	–	43200
Deposit Fund	65.4	68.9	–	43201
NUAM Retirement Plans				
Mixed Fund	64.6	68.0	–	43202
UK Ordinary Share Fd	73.0	76.9	–	43203
International Fund	53.8	56.6	–	43204
Property Fund	84.3	88.7	–	43205
Fixed Interest Fund	61.5	64.8	–	43206
Index Linked Sec Fund	61.5	64.7	–	43207
Deposit Fund	75.7	79.7	–	43208
NUAM (MP)				
Managed Fund	848.4	893.1	–	43209
Equity Fund	1761.7	1854.5	–	43210
International Fund	131.0	137.9	–	43214
Property Fund	552.2	581.3	–	43211
Fixed Interest Fund	387.8	408.3	–	43212
Index Linked Sec Fund	59.2	62.4	–	43215
Deposit Fund	268.9	283.1	–	43213

Norwich Union Life Insurance Soc.

Surrey Street, Norwich NR1 3NG 0603 622200

	Bid Price	Offer Price	Yield Gross	Cityline
Unitised Life				
With Profits Fd	105.06	110.99	–	47620
Managed Fd	80.63	84.87	–	47615
UK Ord Share Fd	83.10	87.47	–	47619
International Fd	73.42	77.28	–	47613
European Fd	83.30	87.69	–	47611
North American Fd	74.07	77.97	–	47616
Pacific Fd	63.97	67.34	–	47617
Property Fd	100.20	105.47	–	47618
Fixed Int Fd	93.22	98.12	–	47612
Intl Bond Fd	87.85	92.48	–	47614
Deposit Fd	105.78	111.35	–	47610

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	Yield Gross	Cityline
Individual Pension Funds				
UK Equity Acc	199.7	210.7	–	43454
UK Fixed Interest Acc	190.3	200.8	–	43455
Intl Equities Acc	192.7	203.3	–	43456
UK Managed Acc	163.3	172.2	–	43457
Property Acc	208.1	219.6	–	43458
Money Acc	148.2	156.4	–	43459
Special Market Acc	199.5	210.3	–	43460
Japan Equity Acc	144.4	152.4	–	46761
North American Acc	102.0	107.6	–	43462
Pacific Acc	142.6	150.5	–	43463
Technology Acc	118.7	125.3	–	43464
Natural Resources Acc	99.1	104.6	–	43465
European Acc	103.9	109.7	–	43467
Residential Prop Acc	103.5	109.2	–	43468
Swiss Equities Acc	31.2	33.0	–	43469
Hong Kong Acc	45.0	47.5	–	43470
UK High Inc Eqs Acc	64.0	67.6	–	43471
Int Fixed Interest Acc	53.2	56.2	–	46410
Int Managed Acc	50.9	53.6	–	46411
Group Pension Funds				
Equity Acc	678.5	699.5	–	43473
Fixed Interest Acc	559.5	576.9	–	43474
Managed Acc	116.8	119.1	–	43475

Provident Life Assoc Ltd

Provident Way, Basingstoke RG21 2SZ 0256 470707

	Bid Price	Offer Price	Yield Gross	Cityline
Unit Fund (Mixed)	953.4	1001.1	–	43476
Equity Fund	216.0	226.8	–	43477
International Fd	119.1	125.1	–	43478
Fixed Interest Fd	156.7	163.5	–	43479
Property Fund	226.0	237.3	–	43480
Index-Linked Fund	146.9	154.2	–	43481
Deposit Fund	155.4	163.2	–	43482
Pens. Mixed (Ord) Fd	232.5	244.1	–	43483
Gold Pensions				
Discretionary Fund		113.3	–	46412
Equity Fund		111.4	–	46413
Fixed Interest Fund		113.9	–	46414
International Fund		92.0	–	46415
Property Fund		138.5	–	46416
Index-Linked Fund		122.7	–	46417

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)[**]

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Baring Intl Fund Managers Guernsey Ltd

Bankerst Management (Guernsey) Ltd

Fleet-Connell Fund Mngrs (Guernsey) Ltd

John Govett Mngmt International Ltd

Hambros Fund Managers (CI) Ltd

Havelet Throgmorton Mngmt Ltd

Henderson Admin. (Guernsey)

	Bid Price	Offer Price	Yield Gr's	Citycode
Prime Rate Pmgmt unitised	£0 908		-	45225
Balanced Gwth $ Prtflo	$1.800	1.939	-	45226
Balanced Gwth £ Prtflo	£1 034	1.111	-	45227
Select Mltu $ Prtflo	$1 835	1 983	-	45228
Inc & Gwth $ Prtflo	$1.628	1.732xd	-	45229
High Income £ Prtflo	£0 577	0.610xd	-	45230

Hill Samuel Fd. Mngrs. (Guernsey) Ltd

Guernsey Tst	63.12	67.49	2.87	45254

Kleinwort Benson Intl Fd Mngrs Ltd

KB Int Ac Bd Acc*	£8 627	9 087	-	45356
KB Japan Fund		$176.20	-	45357
KB Sterling Asset	£29 08	29 08xd	-	45358

*Offer price inclusive of maximum preliminary charge

Kleinwort Benson Islamic Fd Mgmt Ltd

Islamic Fund	$5 65	6.05	0 46	45366

Lazard Fund Managers (CI) Ltd

Lazard Cap Gwth Bond	$2791.67	2950.86	8.3	45385
Lazard Cur Acc Fd £	£18 44	18.45	14 2	45367
Lazard Cur Acc Fd US$	$14 34	14.35	6.9	45368
Lazard Cur Acc Fd Y	Y3,780	3,790	7.4	45369
Lazard Cur Acc Fd DM	DM50 98	50 99	7.2	45370
Lazard Cur Acc Fd SF	SFr36.81	36 82	6.9	45371
Lazard Cur Acc Fd FF	FFr156.70	156.71	8.8	45372
Lazard Cur Acc Fd Man	$15 05	15 81	-	45375
Lazard D fxd Bnd (Inc)	$18.37	19.36	8.77	45386
Lazard D fxd Bnd (Acc)	$23 57	24 83	-	45387
Lazard European Fund	$42 78	45.32	1.0	45376
Lazard Far East	$49.31	52 49	-	45377
Lazard Global Equity	$24 53	26 09	-	45378
Lazard Int Inc $ (Inc)	$1016 35	1071.36	8.207	45388
Lazard Int $ Inc (Acc)	$2316.17	2441.52	-	45389
Lazard Int Inc £ (Inc)	£8 86	9 34	11.792	46157
Lazard Int Inc £ (Acc)	£11 47	12.11	-	46158
Lazard Japan Fund	$40 34	43 11	-	45390
Lazard Nth Am	$18 64	19.83	1.0	45379
Lazard Sel Port £ Cap	£11 79	12.71	-	45380
Lazard Sel Port £ Inc	£9 10	9.60	13	45381
Lazard Sel Port $ Cap	$12 43	13.41	-	45382
Lazard Sel Port $ Inc	$8.56	9.02	7.9	45383

Merrill Lynch Int Capital Mngt (GSY) Ltd

Inglia Fd NAV Oct 4		£2 82	-	42710
Incm Cap Dbl NAV Sept 28		$10 17	-	47939
Incm Cap Dll NAV Sept 28		$10.14	-	43436
Euro Spain NAV Oct 3		$8 49	-	-

(For information only)

NM Financial Mgmt Intl Ltd

Mngd Currency	£6 146	6 458	5 71	45498
NM Portfolio Selection Fund Ltd				
Conscience	£0.787	0 837	1.83	46250
Far East Gwth	$1 111	1.181	0.00	46251
Smaller Co's	£0 770	0.819	1.41	46252
Special Sits	£0 613	0 652	1.05	46253
Intl Bond	$0 882	0.938	9.77	46254
American Fund	$1.800	1 914	2.79	45502
American Smaller Cos	$1.094	1.163	0.00	45504
Australian Fund	£1.440	1 531	1.97	45506
British Fund	£1.354	1.440	7.60	45508
European Fund	£1 857	1.975	1.07	45510
Gold Fund	£0.593	0 630	0 00	45512
Hong Kong Fund	£1 418	1.508	8.75	45514
International Fund	£1 045	1 111	0.45	45516
Japanese Fund	£2 068	2.199	0.00	45518
Japan Smaller Cos	£3 834	4.078	0.00	45520
Singapore & Malaysian	£0 990	1.053	0.00	45522
Dollar Fixed Interest	$0 989	1.052	10.20	45524
Sterling Fixed Int	£0.861	0.915	11.43	45526
Deutschemark Currency		DM5.053	2.36	45528
Dollar Currency		$0.951	4 91	45531
Sterling Currency		£1 049	10.48	45532
Yen Currency		Y199 5	1.40	45534
Managed Currency	£0 935	0.994	6.94	45536

Nikko Capital Mngt (Europe) Ltd

Japan Index Fund	Y2513	2538	-	45559
New Generation Fd $	$19.76	19 97	-	45560
Japan Index Alpha	Y7156	7263	-	46350
Jap Sector Rotation	Y6046	6132	-	47334

Prudential Intl Financial Services Ltd

Holborn Currency Fund				
Managed Sterling	134 6	135 1	9.65	45637
Managed Dollar	$14 49	14.53	7.26	45638
Sterling Deposit	100 0	100.0	10.37	45639
Dollar Deposit	$10 00	10.00	-	45640
DM Deposit	DM51 48	51.67	5.31	45641
SWFr Deposit	SFr50 00	50 00	-	45642
J Yen Deposit	Y5,126	5,145	3.95	45643

Sandi International (Guernsey) Ltd

Intl Bond	$9 99	10 16	-	46774
Intl Dollar	$10 13	10.14	-	46775
Intl Equity	$10 31	10.67	-	46776
Falcon High Income	$95 07	95.96	-	44741

Schroder Mngmt Services (Guernsey) Ltd

New European Bond	$10.7193	11.0917	-	44471

Sovereign Asset Management Limited

Olympic Options Ltd	£8 7801	9 0539	-	40411

Stonehage Fund Mngrs Ltd

Intl Man Fd	$11.18	11.24	-	46492

Strongbold Asset Mngmt (Guernsey) Ltd

Tech and Comm	£8 51	9 00	-	44712
Pacific Basin Fd	$69.92	74.32	-	44713
Western European	$16.65	17.82	-	44714

Tyndall International (Guernsey) Ltd

Capital Defender	51.13	1.20	3.92	45880
Hi.Yield Bond	62 0	65 2xd	15.34	45881
Internat. Spec. Sits	34 8	36.6	1.62	45882
Marathon Fd.	73 7	77 5	-	45883

U.S. Treasury Securities Fund Ltd

Short Term Shares		$731.2	-	45903
Fixed Income Shares		$850.51	-	45904

Yamaichi Capital Mangmt (Guernsey) Ltd

Japan Mega Growth		$10 47	-	46000
Yamaichi Y$S Fund		$7 20	-	46591
Yamaichi CB Plus Fund		$7 92	-	47335
Thai Inv Fund		$9 60	-	46493

IRELAND (SIB RECOGNISED)

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	Citycode
MI Global Asset Mngmt Co Ltd "MI Trusts"						
MI Global Dollar	5	-	0 94	1 01	-	43441

ISLE OF MAN (SIB RECOGNISED)

Allied Dunbar Intl Fund Mgrs (1600)H

Lord Street, Douglas IoM 0624 661551

ADI Mngd	5	0 5244	0 5244	0 5584	-	44675
ADI Mngd Currency	5	0 3984	0 3984	0 4194	-	44676
ADI Worldwide	5	0 5603	0 5603	0 5967	-	44677
ADI Nth Amer Grth	5	0 5428	0 5428	0 5780	-	44678
ADI Far East	5	0 9968	0 9968	1 0615	-	44679
ADI Gilt & Income	5	0 2350	0 2350	0.2475	-	44680
ADI UK Cap Gth	5	0 1810	0 1810	0 1927	-	44681
ADI Europe Fd	5	1 0904	1 0904	1 1584	-	44682

For conversion Prices of Shares Phone 0624 662860

Asset Global Funds Ltd

Asset Hse, Mona St, Douglas IoM 0624 20097

French Equity	5	121 7	121 7	129.2	-	44689
UK Gilt	5	9 75	9 75	10 27	-	44690
UK Equity	5	12 08	12 08	12.99	-	44691
US Bond	5	9 74	9 74	10 29	-	44692

CMI Fund Managers (IoM)

Clerical Medical Hse, Douglas, IoM 0624 25499

High Income	5	0 4815	0 4815xd	0 5069	14 42	47293
CMI Core Portfolio Fund						
UK		£-	0 8117	0 8729	-	47540
USA		$-	0 7472	0 7940	-	47541
Japan		£-	0 5795	0 6117	-	47539

Equity & Law Intl Fund Mngrs Ltd

Victory Hse Prospect Hill Douglas IoM 0624 77877

Total Income Fd	5¼	96 23	96 26xd	101 31	14 71	41546

Gartmore Fund Managers (IoM)

PO Box 32 Douglas IoM 0624 27610

Intl Grth	5¼	415 0	415 0	442 9	1 0	45095

Mercury Fund Managers IoM Ltd

11 Hill Street, Douglas IoM 0624 662255

Merc IoM Fund	5	95 52	95.52xd	101 9	7 6	45970
Merc Intl Bond	5	47 75	47 75	50.22	11.7	45971

Refuge Overseas (1200)

4th Floor Victory Hse Douglas IoM 0624 77500

Gilt Fd	5¼	94 49	94 49xd	99 77	10 14	46799
International Bond	5¼	80 03	80 03xd	84 49	12.00	46802
ECU & DM Bond	5¼	91 11	91 11xd	96 53	8 45	46798
Stlg Deposit	0	100 26	100 26xd	100 26	12.99	46801
US Dollar Deposit	0	1 7486	1 7486xd	1 7486	6.55	46803
W'wide Equity	5¼	82.73	84 80xd	90 22	-	46804
UK Equity Fd	5¼	86 99	86 99xd	92.21	-	47294
Tiger Fd	5¼	90 41	91 90	97 78	-	47344
European Ops	5¼	84 75	85.82	91 30	-	46804

Sun Life Management (IoM) Ltd

PO Box 178, Douglas, IoM 0624 22444

Secure High Income	6	0 8963	0 8963	0 9606	[illegible]	47486

ISLE OF MAN (REGULATED)(**)

CAL Investments (IoM) Ltd

Duncan Lawrie Inv. Mgt. Ltd

Equity & Law International Fund Mgt Ltd

Gartmore Fund Managers (IoM)

John Govett Management (IoM) Ltd

IBI Global Funds Limited

Refuge Overseas

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

No love for dollar

Markets are showing no love for the dollar and no great enthusiasm for the D-Mark, but at last sterling has fulfilled its promise to become an integrated European currency and was the subject of considerable favour on Friday, after a week of celebrations, disappointments and a short-lived anniversary.

UK clearing bank base lending rate 14 per cent from October 8, 1990

Celebrations involved the creation of a single German nation after 45 years of division, but the D-Mark did not join the party mood and at one time on Friday slipped briefly to the bottom of the European Monetary System. Inflationary worries involving unity are weighing on the D-Mark, but most of the full EMS members are so closely grouped that a currency can move up and down the system very quickly.

There was also celebration at a budget cutting agreement between the White House and US congressional leaders, but disappointment followed as the House of Representatives voted against the proposals. An agreement was expected to result in lower US interest rates, pushing the dollar to record lows, but the House vote failed to give the currency any real lift since the weak economy may still lead to a rate cut.

The anniversary involved a full year of 15 per cent UK bank base rates, but this was short-lived as the authorities combined a signal of a 1 per cent cut in rates with the announcement that the pound becomes a member of the EMS exchange rate mechanism today.

Just when it looked as if sterling was beginning to lose its attraction, after struggling for some time to break through technical resistance at around DM2.94, the market was caught out by the EMS news. Fears that the currency could fall to DM2.83 were forgotten as the pound burst through DM3.00.

£ IN NEW YORK

Oct.5	Close	Previous Close
£ Spot	1.9520-1.9530	1.9140-1.9150
1 month	0.94-0.96	1.08-1.06pm
3 months	2.70-2.50	3.10-3.08pm
12 months	9.05-8.85	10.2-10.0pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Oct.5	Previous
8.30 am	93.9	93.6
9.00 am	93.9	93.6
10.00 am	93.9	93.5
11.00 am	93.9	93.6
Noon	93.9	93.6
1.00 pm	94.1	93.7
2.00 pm	94.2	93.7
3.00 pm	94.0	93.6
4.00 pm	94.1	93.7

CURRENCY MOVEMENTS

Oct.5	Bank of England Index	Morgan** Guaranty Changes %
Sterling	94.1	-18.7
U.S Dollar	61.4	-17.6
Canadian Dollar	102.8	+1.2
Austrian Schilling	109.7	+11.8
Belgian Franc	111.6	-2.2
Danish Krone	110.7	+5.2
Deutsche Mark	119.0	+25.0
Swiss Franc	116.0	+25.4
Guilder	114.6	+16.3
French Franc	105.5	-11.1
Lira	99.4	-19.7
Yen	133.4	+65.0

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Oct.4.

CURRENCY RATES

Oct. 5	Bank rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.740247	0.699712
U.S Dollar	7	1.40963	1.34275
Canadian $	12.82	1.61952	1.54456
Austrian Sch	6½	15.1958	14.4869
Belgian Franc	10¼	44.5514	42.3939
Danish Krone	10½	8.27946	7.86044
Deutsche Mark	6.00	2.15885	2.05910
Neth.Guilder	7.00	2.43655	2.32188

OTHER CURRENCIES

Oct 5	£	$
Argentina	10412.0 - 10475.0	5430.00 - 5460.00
Australia	2.2935 - 2.2960	1.1955 - 1.1965
Brazil	160.685 - 162.115	83.80 - 84.50
Finland	7.0005 - 7.0140	3.6480 - 3.6510
Greece	290.40 - 295.05	151.40 - 154.35
Hong Kong	14.8805 - 14.8945	7.7570 - 7.7590
Iran	124.00*	66.20*
Korea(Sth)	1353.90 - 1375.80	710.10 - 715.70
Kuwait	N/A	N/A
Luxembourg	61.90 - 62.00	31.75 - 31.85

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

Strike Price	Calls Oct	Calls Nov	Calls Dec	Calls Mar	Puts Oct	Puts Nov	Puts Dec	Puts Mar
1.775	17.60	17.60	15.10	17.60	-	0.07	0.34	1.43
1.800	15.10	15.10	12.70	15.20	-	0.16	0.60	1.96
1.825	12.70	12.60	10.43	12.79	-	0.37	0.97	2.51
1.850	10.20	10.26	10.43	10.67	0.02	0.72	1.47	3.31
1.875	7.70	8.06	8.38	8.81	0.07	1.18	2.04	4.25
1.900	5.31	6.11	6.58	7.17	0.26	1.87	2.90	5.34
1.925	3.22	4.46	5.04	5.79	0.71	2.70	3.97	6.62

Previous day's open int: Calls N/A Puts N/A (All currencies)
Previous day's volume: Calls N/A Puts N/A (All currencies)

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS. Figures in parentheses show number of lines of stock	FRIDAY OCTOBER 5 1990 US Dollar Index	% chg ($) since 29/12/89	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/89	Gross Div. Yield	THURSDAY OCTOBER 4 1990 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1990 High	1990 Low	Year ago (approx)
Australia (78)	133.36	−11.9	101.50	111.52	107.28	106.08	−16.7	7.30	134.31	104.18	113.64	107.09	107.07	158.31	125.85	160.33
Austria (19)	187.65	+3.0	142.82	156.93	150.92	149.78	−6.3	1.82	190.41	147.69	161.11	151.61	152.17	285.63	178.57	167.03
Belgium (61)	132.28	−14.5	100.66	110.60	106.37	103.72	−23.6	5.58	133.27	103.37	112.75	106.25	103.86	160.02	126.67	141.99
Canada (120)	127.27	−16.4	96.86	106.43	102.35	106.39	−16.7	3.76	128.47	99.65	108.69	102.42	106.89	153.61	127.27	154.03
Denmark (33)	245.08	+1.2	186.53	204.96	197.11	195.42	−9.9	1.52	246.23	190.98	208.33	196.31	196.08	277.82	234.05	200.13
Finland (26)	102.75	−22.9	78.20	85.93	82.64	78.70	−30.4	3.48	103.67	80.41	87.72	82.65	79.57	152.29	102.75	125.63
France (123)	131.72	−15.6	100.25	110.15	105.93	107.08	−24.4	3.84	132.88	103.06	112.42	105.93	107.13	168.85	124.98	139.10
Germany (91)	108.14	−12.6	82.30	90.45	86.97	86.97	−20.1	2.59	110.08	85.38	93.15	87.76	87.76	144.63	101.38	103.06
Hong Kong (48)	116.46	−0.6	88.63	97.39	93.67	115.99	−1.2	5.69	117.07	90.80	99.05	93.34	116.60	147.49	112.24	119.47
Ireland (17)	151.03	−16.6	114.95	126.31	121.47	121.85	−26.0	4.29	153.44	119.01	129.82	122.33	123.76	198.57	139.04	160.70
Italy (91)	85.37	−13.3	64.98	71.38	68.66	73.55	−21.1	3.31	86.92	67.42	73.54	69.30	74.64	109.28	80.87	91.57
Japan (454)	121.87	−38.3	92.76	101.92	98.03	101.92	−43.2	0.83	118.29	91.75	100.08	94.32	100.08	197.28	108.58	183.30
Malaysia (35)	186.23	−18.7	141.74	155.74	149.78	193.55	−18.7	3.16	185.02	143.51	156.54	147.51	192.22	250.89	182.96	206.20
Mexico (13)	482.93	+48.4	367.56	403.87	388.41	1531.24	+60.0	0.44	489.92	379.99	414.51	390.59	1550.44	561.41	324.53	316.47
Netherland (42)	129.01	−10.3	98.19	107.89	103.76	102.86	−18.2	5.55	132.47	102.74	112.08	105.61	104.57	149.03	127.56	131.50
New Zealand (18)	56.08	−22.2	42.68	46.91	45.11	48.20	−25.2	7.21	56.36	43.71	47.69	44.93	48.56	75.36	55.62	83.40
Norway (28)	239.27	+19.7	182.10	200.10	192.44	193.88	+8.4	1.60	245.32	190.28	207.57	195.59	198.87	276.79	202.34	184.74
Singapore (25)	150.69	−15.0	114.69	126.03	121.20	121.35	−21.8	3.47	151.07	117.17	127.82	120.44	121.80	209.24	147.24	166.50
South Africa (60)	151.50	−22.9	115.30	126.69	121.85	136.41	−10.3	4.19	166.33	129.01	140.73	132.61	138.51	251.39	151.50	157.73
Spain (42)	136.74	−16.2	104.07	114.36	109.98	100.54	−25.6	5.48	137.49	106.64	116.33	109.61	100.36	182.25	128.54	165.10
Sweden (27)	176.91	−7.9	134.64	147.95	142.29	148.89	−15.4	2.73	180.83	140.25	153.00	144.17	151.78	234.93	158.07	182.04
Switzerland (67)	89.74	−4.6	68.30	75.06	72.19	71.66	−20.3	2.98	90.52	70.21	76.59	72.17	71.63	109.77	85.00	91.93
United Kingdom (300)	165.76	+4.5	126.16	138.61	133.31	126.16	−13.5	5.51	157.51	122.17	133.25	125.56	122.17	178.18	139.87	148.88
USA (533)	125.52	−12.3	95.53	104.98	100.96	125.52	−12.3	3.91	126.00	97.72	106.61	100.46	126.00	148.95	121.30	145.90
Europe (967)	134.58	−5.5	102.41	112.53	108.23	106.44	−17.8	4.43	132.74	102.96	112.32	105.84	104.45	157.65	124.91	130.65
Nordic (114)	182.81	−2.4	139.13	152.88	147.03	143.80	−11.7	2.10	185.54	143.91	158.98	147.92	145.73	223.29	172.38	168.22
Pacific Basin (656)	121.91	−36.7	92.79	101.96	98.06	102.32	−41.5	1.26	118.66	92.04	100.40	94.61	100.68	192.75	107.82	179.99
Euro−Pacific (1623)	127.40	−26.2	96.96	106.54	102.46	104.37	−33.2	2.63	124.73	96.74	105.52	99.43	103.00	174.18	116.03	160.38
North America (653)	125.54	−12.5	95.55	105.00	100.99	124.28	−12.5	3.90	126.06	97.77	106.67	100.52	124.76	148.43	121.59	146.28
Europe Ex. UK (667)	115.49	−11.9	87.90	96.60	92.91	93.15	−20.8	3.60	117.16	90.87	99.15	93.43	93.83	145.62	109.94	117.96
Pacific Ex. Japan (202)	121.67	−9.8	92.60	101.77	97.87	104.01	−13.3	6.35	122.35	94.90	103.54	97.56	104.73	146.72	121.14	139.98
World Ex. US (1816)	127.84	−25.8	97.30	106.92	102.83	105.14	−32.4	2.68	125.47	97.32	106.17	100.04	103.86	173.77	117.12	160.23
World Ex. UK (2049)	122.15	−24.1	92.97	102.16	98.25	109.98	−27.6	2.78	121.45	94.20	102.77	96.84	109.59	162.00	115.37	154.44
World Ex. So. Af. (2289)	125.88	−21.6	95.80	105.28	101.25	111.41	−26.4	3.09	124.40	96.49	105.27	99.19	110.64	161.84	118.04	153.99
World Ex. Japan (1895)	129.44	−9.8	98.51	108.26	104.12	116.78	−14.6	4.21	129.20	100.21	109.32	103.02	116.64	151.59	124.31	140.43
The World Index (2349)	126.03	−21.6	95.92	105.40	101.37	111.58	−26.2	3.10	124.66	96.69	105.47	99.39	110.83	182.05	118.33	154.01

Base values: Dec.31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).

Constituent changes: Additions: Leu Hldgs. Registered (two lines)(4/10). Deletions: Nixdorf Computers (Germany) and Mack Trucks (US)(2/10). Name changes: Diesel Kiki to Zexel Corp, Kashiyama to onward Kashiyama and Sanraku to Mercian Corp.(all Japan)(3/10).

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

FINANCIAL TIMES STOCK INDICES

	Oct 5	Oct 4	Oct 3	Oct 2	Oct 1	Sep 28	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs.	78.98	78.60	78.45	78.47	78.25	78.09	84.20	74.13	127.4	49.18
Fixed Interest	86.80	86.53	86.49	86.49	86.41	86.88	92.91	83.80	105.4	50.53
Ordinary	1655.6	1601.3	1619.0	1594.7	1573.0	1535.7	1968.3	1510.4	2008.6	49.4
Gold Mines	184.8	185.9	184.3	184.8	189.9	200.7	378.5	167.8	734.7	43.5
FT-Act All Share	1026.04	995.94	1003.28	991.56	979.09	962.18	1226.83	962.09	1238.57	61.92
FT-SE 100	2143.9	2070.4	2087.0	2058.5	2030.8	1990.2	2463.7	1990.2	2463.7	986.9

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS—Contd

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Contd

CANADIANS

Continued on next page

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,396.0	ABN Amro Fl5	£9¼	-3.2	8.9	4.9	Aug May	1567
1,623.8	ANZ SA1	168	-4.5	11.2	12.6	Feb July	1698
2,803.4	Abbey National 10p	214	9.2	3.6	6.8	Apr Oct	5411
932.7	Allied Irish Ord.	144	7.9	6.2	29.5	Dec July	1354
30.0	Anglo Irish	50	4.2	8.4	30.4	Jan July	1355
113.9	Ansbacher (H.) 1p	61	....	5.5	12.3	April	1624
677.3	Bancaire Cie Fr100	£39½	14.7	3.3	9.5	May Mar	2202
3,396.4	Banco Bilbao Viz.	£14	....	5.7	9.12	Dec June	–
500.9	Bank Ireland Ir£1	150	9.5	8.8	29.5	July Dec	1360
134.4	Bank Leumi	£19½	...	–	–	–	1740
25.0	Bank Leumi (U.K.)	350	......	5.7	6.8	Mar Sep	1740
895.8	Bank Scotland	118	14.6	5.2	30.4	Nov Jul	1742
96.0	Do 9¾pc Irrd Pf.	96	0.5	12.8	30.4	May Nov	1462
13.4	Bank of Wales	42	......	9.1	30.4	Nov Jun	1743
5,857.1	Barclays £1	370	19.4	7.1	20.8	Oct May	1754
5.90	Beachmark 20p	11	......	9.1	9.4	May Oct	1802
38.3	Brown Shipley £1	240	......	6.7	11.6	Jan Aug	1983
69.7	Cater Allen £1	294	2.8	11.1	25.6	Jan. Aug	2081
10.8	Chancery	52	6.1	23.1	25.6	Jan July	2102
352.8	Commerzbk DM10	£15¾	2.0	4.0	27.5	May	1046
19,357.1	Dai Ichi KBk Y50	655	4.3	0.5	4.7	June	3221
6,443.1	Deutsche Bk DM50	£281½	3.6	2.3	17.5	May	2345
163.1	Espirito Santo	£15¼	1.7	2.6	–	June	5187
288.6	First Nat. Fin. 10p	179	7.8	9.7	9.7	Mar Aug	2571
41.7	FNFC 6.5pc Cv Pf.	86	3.6	9.8	25.6	July	2570
15,529.3	Fuji Bank Y50	678	7.1	0.5	4.7	Dec June	1084
106.0	Gerrard & National	278	3.7	9.1	29.5	June Dec.	2686
64.8	Guinness Mahon 10p	180	-2.9	2.8	14.5	Jul Feb	5074
339.2	Hambros 20p	200	0.5	7.7	25.6	Jan Sep	2812
136.5	Do 7.5pc Cv Pf.	91	3.4	11.0	10.9	Apr Oct	4388
2,111.3	HK & Shang. HK$2.50	33	.....	7.7	14.9	October	–
20.6	Joseph (Leo) £1	393	......	5.4	6.8	Jan Sept	3060
17.4	King & Shaxson 20p	110	4.8	12.4	14.5	Dec June	3088
355.2	Kleinwort Benson Grp.	280	1.1	7.6	20.8	May Oct	3102
4,368.1	Kyowa Bank Y50	320	0.6	0.9	29.6	Mar Jun Sept	3049
3,282.9	Lloyds £1	273	13.8	6.5	6.8	Oct May	3171
26.8	Lon. Scot. Bank 10p.	45	-2.2	7.1	25.6	Mar Aug	4651
1,657.8	Midland £1	212	8.7	11.3	6.8	May Oct	3380
29,176.6	Mitsubishi Bank Y50	£10½	...	0.3	4.7	June Dec.	5290
6,301.9	Mitsubishi Tst & Bk Y50	£4½	3.5	0.7	–	June Dec	4775
15,568.3	Mitsui Taiyo Kobe Y50	£4¼	2.7	0.6	–	Sept Mar	–
5,054.1	Mitsui Tst & Bk Y50	422	-2.5	0.7	29.6	Sept Mar June	5388
2,699.1	Nat. Aust. Bk. A$1	256	0.4	8.4	21.12	July Jan	3456
4,551.1	NatWest £1	278	18.8	8.0	6.8	Oct May	3463
67.5	Ottoman Bank	£135	..	8.1	16.5	May	–
12.6	Rea Bros. Group	32	6.7	2.1	10.9	May Oct	3785
1,097.3	Royal Bk. Scotland	144	13.4	6.7	14.5	Mar Jul	3874
3,811.7	Saitama Bank Y50	375	-3.1	0.7	29.6	Sept Mar Jan	5286
21,022.3	Sanwa Bank Y50	575	-0.3	0.6	11.12	June Dec.	5108
312.9	Schroders £1	623	.....	2.7	26.3	Nov May	3939
54.8	Do £1 N/V	423	1.2	4.0	26.3	May Nov	3941
1,305.0	Sec. Pacific $10	£11¼	11.4	11.6	26.7	Fb My Ag Nv	3985
645.7	Standard Chartd. £1	276½	2.8	16.9	20.8	May Oct	4094
30,151.5	Sumitomo Bank Y50	£6½	4.1	0.4	29.6	June	3079
5,679.7	Sumitomo Tst & Bk Y50	£4½	2.8	0.7	29.6	June Dec	4918
1,994.0	TSB	132	10.5	5.9	6.8	Oct Mar	4320
19.1	TSB Bank Ch'nel Is'l	130	1.6	5.2	11.6	Feb Aug	4319
8,099.7	Tokai Bank Y50	£4½	-9.5	0.9	29.6	June	5359
4,051.3	Toyo Tst & Bk Y50	498	-4.2	0.6	29.6	Sept Mar Jan	1393
96.6	Union Discount £1	515	2.4	8.5	23.7	Mar Sept	4383
635.1	Warburg (S.G.)	326	11.3	6.1	11.6	July Dec	4425
45.5	Do 6pc Cnv Prf.	107	8.1	7.5	10.9	Mar Sept	4426
2,105.0	Westpac SA1	175	-2.2	13.5	28.12	Jan July	4473
38.1	Wintrust 20p	333	-0.6	3.1	6.8	Sep Mar	4524
[illegible]	Yasuda Tst & Bk Y50	[illegible]	3.9	0.6	29.6	Sept Mar Jan	5347

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
5.87	Shaw (Arthur) 10p	67	....	8.2	25.6	Aug Jan	5076
3.98	Sheldon Jones	77xd	-3.8	8.2	24.9	Apr Sept	4001
4.02	Shiloh	71	-2.7	4.9	14.5	Dec Jan	4011
35.7	Sidlaw Group	113	0.9	9.2	11.6	Jan Jul	4017
580.4	Siebe	306	-2.3	6.7	20.8	Mar Oct	4018
38.7	Silentnight 10p	89	3.7	8.1	29.5	Jan July	4020
18.7	Silvermines 2½p	58	9.4	8.6	14.5	Jan. July	3476
34.9	Sinclair (Wm.)	218	-0.9	3.2	12.3	Nov Apr	4026
52.1	Sketchley	90	-4.3	9.6	27.11	Jan Aug	4033
1,038.7	Smith & Neph. 10p	184½	3.6	5.5	14.5	July. Dec.	4043

INSURANCES

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

هكذا من الأصل

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

MOTORS, AIRCRAFT TRADES — Contd

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST—Contd

[illegible]

INVESTMENT TRUST—Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

MINES—Contd

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

2 16	Vista Ents 5p.	y	2¼	-10 0	–	3994
4.28	Vizcaya Hldgs 5p	y	8	–	–	4193
11 2	Wilton Group 1p	y	2¼	–	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

● "Tap Stock"
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
†† Not officially listed.
# Price at time of suspension
♦ Not comparable
‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
★ Cover does not allow for shares which may also rank for dividend at a future date.
§ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1	700	.....
Finlay Pkg. 5p	46	-4.2
Holt (Jos) 25p	1300	-0.4

IRISH

Cap. 8½% Ln. 1991	£98	.....
9pc Cap Ln. 1996	£93½	1.1
Fin. 13% 97/02	£110	0.9
Arnotts	180	.....
Carrol (P.J.)	148	28.7
Hall (R. & H.)	165	[illegible]
Heiton Hldgs.	43	-14.0
IRG	150	[illegible]
United Drug	136	-1.4

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	40
Amstrad	7
Astec (BSR)	6
BAT	45
BOC Grp.	39
BTR	29
Barclays	27
Blue Circle	17
Boots	21
Bowaters	41
Brit Aerospace	43
British Steel	13
Brit. Telecom.	22
Cadburys	26
Charter Cons	37
Comm Union	37
Courtaulds	25
Eurotunnel	55
FKI	5¼
FNFC	28
Gen Accident	46¼
GEC	14
Glaxo	57
Grand Met.	44
Guardian	15
GKN	27
Hanson	16
Hawker Sidd.	39
ICI	70
Ladbroke	22
Legal & Gen.	29½
Lex Service	28
Lloyds Bank	21
Lucas Inds.	11
Marks & Spencer	18
Midland Bk.	20
Nat West Bk.	18
P & O Dfd.	42
Polly Peck	40
Racal Elect.	14
RHM	23
Rank Org Ord.	49
Reed Intnl.	30
STC	19½
Sears	8½
SmKl. Beecham A	44
TI	37
TSB	10
Tesco	19
Thorn EMI	49
Trust Houses	21
T&N	14
Unilever	58
Vickers	19
Wellcome	38

Property

Brit Land	24
Control Secs.	4
Land Securities	42
MEPC	38
Mountleigh	11

Oils

Aviva Petlm	3½
Brit Petroleum	28
Burmah Castrol	44
Conroy Petlm	20
Gaelic Res.	2
Premier	8½
Shell	40
Tuskar Res.	6
Ultramar	31

Mines

Lonrho	21
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: Beatrix Mines (Section: Mines-O.F.S.)
GR Holdings (Industrials).
Gwalia Consolidated (Mines-Australians).
Seton Healthcare (Industrials).
Deletions: AuDAX Resources (Mines-Australians).
Gwalia Minerals (Mines-Australians).
Gwalia Resources (Mines-Australians).
Redland Capital 7¼% Convertible (Buildings).
Royshel Prop. (Oil & Gas).

4pm prices October 5

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
37½	11⅞	AAR	.48	4.0	8	1228	12¼	d11½	12⅛	- ¼
9¼	7¼	ACM n	1.01	13.		x127	8	7⅞	7⅞	- ¼
11⅜	8¼	ACMIn	1.26	13.		x1012	9⅛	9¼	9⅜	- ⅛
9¼	6⅞	ACM M n	1.01	15.		x197	7	6⅞	6⅞	- ⅛
12⅛	10	ACMMM	1.30	13.		x212	11⅜	11⅜	11⅜	+ ⅛
11½	8⅝	ACM Se	1.26	14.		756	9⅜	9⅛	9¼	- ⅛
9⅜	7¼	ACMSp	1.01	13.		380	8	7⅞	8	
24⅜	14⅜	AL Lab	.16	.9	16	123	18¼	17⅞	18⅛	+ ⅛
5¼	1¼	AM Intl				216	1⅝	1½	1⅝	+ ⅛
23¼	7	AM In pf	2	26.		45	7¾	7¼	7¾	+ ½
107¼	39⅝	AMR			10	2914	43	42	42⅞	- ⅜
28½	25	ANR pf	2.67	10.		25	25½	25½	25½	- ⅛
24⅝	22¼	ANR pf	2.12	8.9		2	23⅞	23⅛	23⅞	+ ⅜
4¼	2⅞	ARX			9	34	2⅜	2⅜	2⅜	- ⅛
72⅞	42⅝	ASA	3a	6.3		365	48⅛	47½	47¾	+ ⅛
45⅝	30⅝	AbtLab	s.84	2.1	20	10011	40¼	39⅛	40⅛	- ¼
14⅝	11¼	Abitibi g	.50			64	12¼	12⅛	12¼	
11⅝	5¼	AcmeC	.40	7.0	7	6	5⅞	5⅜	5⅜	
9⅜	6⅛	AcmeE	.32	5.3	8	45	6⅛	d 6	6	- ½
32¼	18⅞	Acuson s			23	690	27⅛	26¼	26⅞	- ¼
19⅞	14⅛	AdaEx	2.06e	14.		16	15	14⅞	15	+ ⅛
16⅜	10	Adobe				363	11¼	11	11¼	- ¼
20¼	17⅞	Adob pf	1.84	10.		10	17⅞	17⅞	17⅞	
11⅛	4¼	AMD			20	1902	5	4⅞	5	+ ⅛
30⅞	18⅞	AMD pf	3	16.		14	18½	d18⅛	18½	
9¼	2	Advest	.16	6.7	30	193	2⅜	2¼	2⅜	
62½	35¼	AetnLf	2.76	8.2	6	11860	37⅞	d33¼	33½	-3⅞
13¼	8	AflPb	.24	3.1		601	8	d 7⅜	7¾	- ⅜
25	11⅞	Ahmans	.88	6.2	6	4493	14⅝	13¼	14⅛	+ ⅛
3⅜	1⅞	Aileen			9	282	3⅜	3¼	3⅜	
61	43	AirPrd	1.44	3.0	12	1530	48⅛	47⅞	48⅛	+ ⅛

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High
46¼	24¼	BoiseC	1.52	6.3	6	1227	24⅜
8¼	3⅞	BoltBer	.06	1.2		385	5
15	7¼	BordC pr	1.75e	20.	8	376	9
14⅝	7⅞	BordCh	1.75e	21.	9	65	8¼
37⅞	28½	Borden	s1.06	3.2		2019	32⅞
19½	14½	BCeltx	2.20e	14.	12	30	15
22⅛	16½	BostEd	1.52	8.6		145	17⅞
15⅞	14⅛	BosE pr	1.46	10.		10	14⅞
29⅛	16¼	Bowatr	1.20	7.0	6	1227	17⅞
14½	7¼	Brazil	3.19e	41.		164	8
34	22⅜	BrigSt	1.60	7.1	9	334	23
65⅞	49⅞	BrMySq	2.12	3.6	25	10934	60
39⅝	28½	BritAir	2.09e	7.5	6	1624	28½
45	29⅝	BritGas	2.33e	6.3	11	254	44½
66¼	54⅞	BritPt	4.24e	6.1	16	2741	68
14½	5⅛	BritP wt				814	12
20⅞	18⅞	BritStl	1.99e	7.9	5	3282	25
66	39¼	BrtTel	2.80e	5.1	13	1658	55½
12¼	5	Broadln	.20	3.9	5	960	6
37⅞	26¼	BHP	1.23e	3.7	13	77	33
12½	9¼	Brooke	.56	4.9	9	15	11
32¼	26	BklyUG	1.84	6.4	11	122	28
29⅞	25⅝	BkUG	pf2.47	8.8		2	28
17½	11	BwnSh	.32	2.6	11	5	12
35	22⅞	BrwnGp	1.60	6.6	12	369	24¼
49¼	27½	BrwnFr	.64	2.2	15	9888	30
17½	6⅛	Brnwk	.44	6.5		3003	7
25¼	13	BrshWl	.72	5.0	19	192	14
28⅜	23⅛	Buckeye	2.60	10.	9	174	25
17⅞	12	BunkrH	1.64	12.		4	13
16	10½	BKInv	1.72a	15.	10	38	11
16¼	10½	BurlCt s			8	62	11
39⅝	24¼	BurNth	1.20	4.4	7	3104	27

Continued on Page 33

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
7¼	4⅞	RelGrp	.32	5.7		95	6¼	5½	6⅛	+ ⅛
30⅜	19½	Repsol	n.85e	3.9		1043	22⅜	21½	22	− ⅜
52⅜	37¼	RepNY	1.32	3.3	125	413	39⅞	38½	39⅞	+ ⅞
6	1¼	Revco				5	1⅝	1⅞	1⅞	− ⅛
27⅛	12⅞	RayRay	.80	5.8	6	126	14¼	14⅛	14½	
70	48½	Reylds	1.80	2.9	8	1360	62⅜	61¼	61⅞	− ¼
67⅞	58⅝	RP Ror n				485	61⅝	60½	61⅛	
19	8⅞	RhP pfA1.60e		18.		10	9	8⅞	8⅞	− ⅜
3½	¾	RhoP wt				30	¾	d ⅝	⅝	
22	8¼	RhoPl n1.60e		16.		22	10⅛	9¾	9¾	− ⅛
41⅛	29½	RiteAid	.90	2.9	12	1148	31¼	30⅝	31	− ½
18¼	9¾	RivHtl			9	10	9⅞	9⅞	9⅞	+ ⅛
14⅞	6⅞	Robtsn				54	7⅛	7	7⅛	− ¼
22⅛	16⅞	RochG	1.56	8.6	9	208	18⅛	18	18⅛	+ ⅛
45¼	25	RochTl	1.48	5.3	14	117	27⅞	27¼	27½	
22⅝	15⅞	RckCtr	1.88	12.	15	347	16⅛	15⅞	16⅛	+ ⅛
28¼	19¼	Rockwl	.86	3.4	10	3303	25⅞	25¼	25⅞	
7⅞	5	RodRen			19	22	5¼	5¼	5¼	− ¼
35⅞	24⅛	RoHaas	1.24	4.5	10	222	27⅞	26	27⅛	+ ⅞
26⅞	11⅝	Rohr				248	11¾	d11½	11¾	
13⅞	7¼	RollinE	.09	1.0	20	1674	9⅛	7⅞	8⅝	+ ½
20⅜	15⅞	Rollins	.55	3.1	17	60	18⅛	18	18⅛	
9¼	5⅞	RolLww	.20	3.0	7	169	6⅝	6½	6⅝	+ ⅛
15⅞	7½	Rowan				1279	14¼	13¾	14	− ⅜
25¼	18⅞	RBSct pr2.62e		13.		110	21½	21	21½	+ ⅛
87	63⅞	RoylD	4.25e	5.3	12	4514	80⅞	78⅞	80	+ ⅛
9⅞	7⅞	Royce	.32e	6.6		121	7⅞	7⅞	7⅞	− ⅛
45	31	Rubmd	.52	1.5	21	1112	35⅛	34½	35¼	− ⅜
18⅝	13¼	RussBr	.40	2.6	14	95	16¼	15⅛	15⅛	+ ⅛
13	5⅞	RussTg	.20	3.1		33	6⅜	6⅜	6⅜	+ ⅛
31	19⅝	Russell	.32	1.5	13	678	22⅛	21⅛	22	+ ⅛
28½	12⅞	Ryder	.60	4.4	41	2204	13½	13	13½	− ⅛
25¼	15¼	Rykoff	.60	3.8	17	170	15⅞	15⅝	15⅞	

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
19⅜	12⅞	WndVl	1.94e	15.		20	13	12⅞	13	− ⅛
59¼	38¾	Wrigley	.88	1.8	16	344	48⅞	48⅜	48	+ ⅜
15⅛	8⅛	WyleLb	.28	2.7	9	96	10½	10⅜	10½	
25⅞	14⅞	Wynns	.60	4.0	10	27	15¼	15⅛	15⅛	+ ⅛
		− X−Y−Z −								
65⅝	32¼	Xerox	3	8.7	6	3707	35½	34½	34½	− ½
32⅞	16½	XTRA	.72	4.3		96	17	16⅜	16⅝	+ ⅛
4	1	Zapata				443	1⅛	1	1⅛	+ ⅛
17⅞	5	ZenithE				984	5	d 4⅝	4⅝	− ½
19½	13⅛	ZenNtl	.88	6.6	8	3	13	d13	13	− ¼
8½	4½	Zenix	.93	17.		381	5½	5¼	5½	+ ⅛
17½	9⅞	Zero	.40	3.9	10	96	10⅜	10	10⅜	+ ¾
51⅛	30¼	Zurnin	.76	2.2	15	232	35⅜	34	34⅞	− ½
12⅝	10⅛	Zweig	1.18e	11.		z942	10⅝	10½	10⅝	+ ⅛
10	8¼	ZweigTl	.84	10.		708	8⅜	8¼	8⅜	

Sales figures are unofficial.Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months.g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months.plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices October 5

NASDAQ NATIONAL MARKET

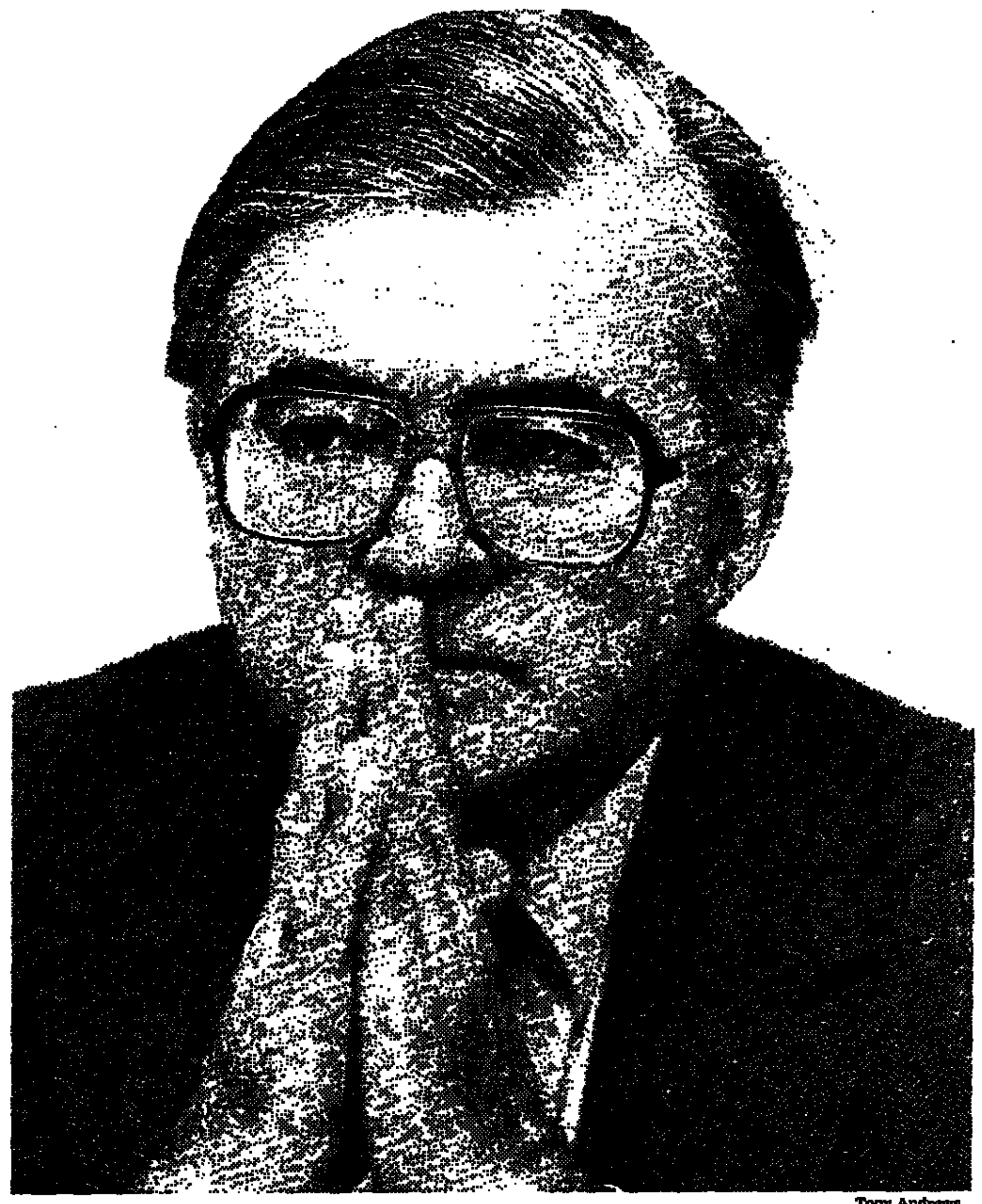
4pm prices October 5

Stock	Div.	Sales 100s	High	Low	Last	Chng
WiserO	.40	31 82	18⅞	18½	18⅞	+ ¼
Wolohn	.28b	7 112	12½	12½	12½	
WlvExp		1310	6⅞	5½	6⅛	+ ⅜
WlvEx pf		121	18½	17	18½	+ ⅜
Worthg	.60	15 211	20⅛	19¾	20	− ¼
Wyman	.80	627	7	6½	7	
		−X−Y−Z−				
XL Dta		5 472	8½	7½	8	+ ⅜
XOMA		596	17½	16½	17½	+ ½
Xilinx		845	11	d10¼	10¾	− ¾
YonEnS	1.52	16 130	19	18½	18¾	− ¼
YelowF	.82	39 2051	19⅛	d18¾	19¼	+ ⅛
YorkRs		10 775	9	7⅞	8½	− ⅜
Zeos		15 49	13¼	12⅞	13	− ¼
ZionBc	1.44	7 6	25	25	25	

MONDAY INTERVIEW

Mr Never Easily Outflanked

Kenneth Baker, chairman of the Conservative party, talks to **Ian Hargreaves** and **Philip Stephens**



Tony Andrews

'The next election will be different'

Sometimes these things happen. Our interview with Mr Kenneth Baker began at 8.30am on Friday. That afternoon, the Chancellor announced that Britain was joining the exchange rate mechanism of the European Monetary System.

Did Mr Baker really sit through a long examination of campaign tactics, this week's party conference, Europe and his own political soul in full knowledge of this impending drama? The answer is, he did not. "We had rather steeled ourselves for nothing and for a not very good RPI figure this week," he said on Saturday, although Mr Major's interest rate tonic is bound to sweeten the Bournemouth air.

Does the ERM decision alter his calculations about election timing? "I don't believe you can draw a conclusion one way or the other," he says. "There's a great deal of uncertainty."

It is not long, however, before he is doing what he does best; selling. The ERM decision, he says, "plays to the conference theme, that we are a strong and determined government."

It would be difficult to overstate Mr Baker's qualities as a salesman. It costs him no visible effort to draw from his suitcase an array of carefully folded slogans before offering them to the listener as if freshly tailored with only you, sir, in mind. In Mr Baker's recently published anthology of verse parodies, there is a piece by a teacher based on Henry Reed's army life poem, Naming of Parts. In it, the parodist struggles with the chores of the GCSE examination system which Mr Baker, then education secretary, introduced in 1988. In a footnote, Mr Baker says the exam "proved a great success" and adds "it is to their (the teachers') credit that they did it so well." A man who can gladhand his way around the footnotes of a Faber poetry book will not be easily be matched in this art.

Mr Baker combines these high cholesterol skills with a street-fighter's knuckle. Privately his Labour opponents admit he was very sharp indeed in May's local elections to focus media attention on two untypical Tory authorities which had set a low poll tax. Last week's Conservative party political broadcast also bore the Baker stamp, listing alleged Labour hypocrisies and deceptions and culminating with a visual message: socialism equals imprisonment.

"Socialism is an imprisonment philosophy," says an unrepentant Mr Baker. "It's an imprisonment of the human psyche." According to a Shadow Cabinet member, "This will be the roughest election campaign we have ever seen."

Mr Baker says: "This election will be different because it's unlikely that you will have a large middle vote ... so it's important to draw out the difference between the fundamental approach we have and the approach Labour has. Labour is trying to blur these differences."

Bournemouth this week will thus see the Baker-model Tory party in full flow. There is a main theme and four sub-themes, each with a slogan, and ministers have been choreographed to their themes, which are not intended to include new promises. "It's not a manifesto conference," says the chairman.

Combined with powers of organisation, these engaging qualities make Mr Baker a good, perhaps an ideal choice as chairman. But surely there should be another dimension in a politician who aspires to the party leadership; an office for which polls suggest he is a front-runner. What, we need to know, distinguishes him politically in a crowded field?

The conversation circles. We discuss the wilderness years which followed his allegiance to Ted Heath, then the Ministry for Information Technology, remembered for a Mitterrandesque plan to plant a broad-band telecommunications system in the unfertile landscape of early Thatcherism.

"It will come in the next five, 10, 15, 20 years," he says, but not with government financial incentives. "One learned the hard way that that was an easy way to lose a great deal of money." Other key lessons in his political education included Mr Heath's prices and incomes policy – "you cannot run one" – and the privatisation of British Telecom. "Privatisation is important ... one's got to find ways of bringing private capital flows into those areas of the public sector that so desperately need it. Transportation is one example."

So does that make him today a fully paid up Thatcherite? Does he, like the prime minister, want to kill socialism, or does he still think, as he said in 1986, said the job was "re-arranging Attlee's architecture, not destroying it." A peal of laughter. "I was like St John the Baptist," he says. Look what happened to him. "Yes, but he's had a good press over the years."

There follows some historical reminiscence about Attlee's importance, at which point you are intended to have forgotten your question. Is he with those Tory radicals who preach permanent revolution? That, he suggests, would require a planned and pre-ordained framework and "that's not the way Conservatives look at things." This is a prologue to reminiscence about his education reforms. As you would expect he tries to waft away the point that after 11 years of Mrs Thatcher Britain's educational achievements still seriously trail those of its competitors. Today's Tory Daily Telegraph promises a "crisis in the classroom" special report.

PERSONAL FILE

- **1934** Born Newport. Educated at St Paul's and Magdalen College Oxford.
- **1958-** Non-political career included jobs in industry with Shell, Aquascutum and Avon.
- **1968** Elected to Parliament. Since 1983, MP for Mole Valley.
- **1974-75** Parliamentary Private Secretary to Edward Heath.
- **1981-84** Minister for Information Technology.
- **1984-85** Minister for Local Government.
- **1985-86** Environment Secretary.
- **1986-89** Education Secretary.
- **1986-** *Chairman of the Conservative Party.*

Look, Mr Baker, the point is this. You've been associated with all kinds of political action, some on the left of the party, some on the right. But when you make a big, thoughtful speech, like this year's Disraeli lecture, the Responsible Individual, you dart between sentimental stuff on the English character, swipes at Labour, praise for the family and a yearning for "a community of individuals." A coherent statement of political vision, it is not. What, Mr Baker, is Bakerism?

"The thing that made me a Conservative ... is summed up in that phrase 'the responsible individual'; it's my belief in individual freedom and that's the guiding principle." We are then back to Edmund Burke's "little platoons", the individual, the family etc. Let's put it another way. Does the man some colleagues know as "Kenneth 'never knowingly underbid' Baker" have any policy differences with Michael Heseltine? "Michael stands closer to the interventionist side," he offers. It's the clearest political statement of the interview.

His views on Europe are also carefully hedged. "I've thought a lot more about Europe in the last few months," he says. "The community should be expanded. Poland, Czechoslovakia and Hungary should be members as soon as possible, when democracy has been established and they have moved towards market forces." He would like the missing Scandinavians in too, but baulks at Turkey.

These then are some of the thoughts of chairman Baker. At one level, you cannot but admire the clever resistance to classification at a time when no one can predict the date or the form for the big leadership race. Mr Baker is not the only ambitious Cabinet member whose political stripe is being kept deliberately out of focus.

The harsher judgment is that politically he is an anthologist rather than a leading English poet. You would not want to road test his ideas either for originality or consistency; indeed the latter can sometimes be glaringly absent. On Saturday, for example, he was arguing that we should "make haste slowly" on European monetary union in part because Germany faces huge inflationary pressures following unification. Not the ideal point on the weekend that the pound joined the D-mark club. But if Mr Baker helps the Tories to a fourth successive victory and Mrs Thatcher goes at once, Mr Never-Easy-to-Outflank could still, just be the man for the hour

Ironic triumph of the US constitution

By Anthony Harris in Washington

"I don't see why the taxpayer should pay. We didn't do anything. I think the government should pay."

This unwitting summary of the current US crisis came from a caller to a radio talk show; and the alienation of ordinary Americans from their government could hardly be better expressed.

The budget crisis is not, as Governor Douglas Wilder of Virginia has said, a crisis between the White House and the Congress, or of Republicans against Democrats, but of Washington against the rest of the country. (Governor Wilder seems to be planning an outsider's run at the next Democratic convention, but there is nothing to stop an ambitious man from speaking the truth.)

The near-breakdown of the US political system will still probably be averted, for brinkmanship is now a normal part of the US budget process; something rather similar was going on when I arrived here in 1987. However, even if the system functions after a fashion, the outside world will still conclude that it is not capable of delivering hard decisions, except in time of economic collapse or war: and the outside world will be right.

The crisis is partly a triumph for ex-President Reagan. He persuaded a large number of Americans to believe in the nonsense called supply-side economics, so that it would be politically impossible to raise taxes; and he regarded the fiscal deficit as an important legacy, since it would enforce a real attack on the spending side of the budget.

But it is above all a triumph for the framers of the US constitution. They were so concerned to prevent a revival of what they saw as the tyranny of the British constitutional monarchy that they devised an essentially powerless system. This is not simply a matter of the checks and balances; they foresaw, as the federalist papers show, that the primacy of regional interests would lead to venality, but they regarded that as preferable to the tyranny of doctrines.

For most of the past two centuries, this has proved a pretty good trade-off; compare the results of the French and the American revolutions, if you doubt it. As Italy and Japan also show, a strong economy at peace can do very well without honest or effective government. However, it has now had one result which the honest tradesmen who wrote the constitution can hardly have imagined. It left the federal government with almost unlimited power to borrow.

The trouble with a debt crisis, as every bankruptcy proves, is that a resolution can always be delayed by determined wishful thinking. That was the main plank on which President George Bush won his disgraceful election campaign. He has subsequently come to his senses. But many of his nominal supporters in Congress have not, or at least hope that they can win one more campaign against arithmetic. Wall Street has supported them: it refused to greet the defeat of the budget package with the collapse which Treasury Secretary Nicholas Brady had predicted only a day earlier.

That is the immediate cause of the crisis; for there is little doubt that had the Republicans supported their president, the majority of Democrats would have voted for the package too. They would have done so under protest, for it contained new tax loopholes, and placed an undue burden on the sick.

All the same, it had some real merits. It was much more honest than any previous deficit-cutting exercise, and proposed one procedural reform of enormous potential value: all future spending proposals would have to contain matching proposals to raise new revenue. This could have done more to limit future deficits than the endlessly amended (and basically senseless) Gramm-Rudman law could ever do, and it is to be hoped that this measure survives the current horse-trading in Congress.

It is worth stressing, too, that the package was not the empty gesture that some outside critics have described. It was proposed on the brink of a recession. It came on top of a squeeze which is already being imposed in state budgets, which are severely deflationary this year, and by the savings and loan clean-up – a huge nominal expenditure which actually reduces demand. According to well-qualified judges, the $300bn five-year programme should be enough to reduce the national debt as a proportion of GDP, and that is a great deal more than a token.

The political crisis will remain, though, even if Congress passes (and the president accepts) an equivalent package. The procedure of drafting through a secret cabal – open disagreements secretly arrived at, you might say – is obviously undesirable, and has been denounced; but it was imposed by the general reluctance of almost any politician (apart from the rock-like Congressman Dan Rostenkowski) to speak words of discomfort in public. The package was designed as a political orphan.

It also evaded three big issues which will have to be faced: the need for the rich to pay their share of any new revenue; the claims of the old, who now absorb half the total discretionary expenditure of the federal government; and the rampant waste in the now largely redundant defence programme. It will be a tragedy is the US has to wait for an inflationary debt crisis and a collapse of the dollar before the voters are willing to support men who speak the plain truth. Don't cry for me, Argentina?

JOTTER PAD

Punishments that serve society

JUSTINIAN

It would have taken a very bold, not to say maverick judge who would have passed anything other than sentences of immediate imprisonment on the Guinness three (Sir Jack Lyons escaped the same fate only by virtue of chronic ill-health). Yet the question may sensibly be posed: what benefit does society derive from deploying the scarce resource of imprisonment against financial malefactors who are unlikely ever to repeat their greedy dishonesty?

Imprisonment is the ultimate sanction which a civilised society applies to those offenders who commit serious crimes. For those offenders who, if at large, are a danger to others, removal from social intercourse is necessary in order to defend potential victims. For those who do not present violent propensities, but commit crimes which are inimical to the economic fabric of society, there ought to be other ways of making public their criminality without putting them in prison.

Society may well need to pronounce its disapproval of serious crime in a denunciatory fashion. Assuagement of both public and private outrage is important. The ultimate sanction of imprisonment is the only instrument that can do that to the full extent. But is it necessary to incarcerate the individual offender?

The suspended sentence of imprisonment for up to two years has been with us now for 25 years. Why Mr Justice Henry did not use that sanction, at least against Sir Jack Lyons, is not immediately apparent. Sir Jack's conduct – as with his co-conspirators – deserved the mark of imprisonment: only his ill-health spared him the indignity of experiencing the prison cell.

Presumably, the judge thought that since repetition of the dishonest behaviour was improbable, if not impossible, the court was precluded from using the suspended sentence. Theoretically, that is so. But the suspended sentence has a declaratory value, whose message to the public is that the crime demands the punishment of imprisonment – a label which the offender will forever have metaphorically to wear – but does not require it to be carried out.

Not enough, the public claims. And rightly so, for these four men ought to be made, for some time, social pariahs, but by a different route. As a civilised society, we have not yet fully explored the avenues of punishment in the community. The penal system has not yet accommodated refined penalties. Could there be any objection if such offenders were deprived of a passport? Travel abroad is a luxury which such individuals hugely enjoy. It should be denied to them if they are convicted of serious crimes. Would reporting weekly at the local police station for one year be appropriate? There may not be any practical reason for keeping tabs on the offender, but the manifest indignity of having to sign an offender's report book at the "cop shop" might satisfy a public desire to declare the offenders second-class citizens. Better to undergo that indignity than to suffer the odium of nauseous prisons.

There are other possible penalties that could be devised. A requirement of residence in a particular locality, with a condition that the individual does not move outside a certain radius from his home, would be a stringent penalty, to be reserved for the more serious offender.

Offences of fraud and dishonesty ought to entail disqualification from positions of trust or public responsibility. Mr Justice Henry declined to disqualify any of the Guinness Four from holding company directorships (a power which has long existed in company law). He did so, because the present law provides that disqualification should be imposed only where the dishonesty was such that the individual would be a danger to the public if allowed to continue to be involved in the management of companies in the future. Would it be suitable to broaden the scope of disqualification? Dishonesty in rigging the share market should call forth the penalty of temporary exclusion from the corporate circles in which the crime was committed. It is not the danger of future conduct, but the indignity of the penalty that should be the test.

When parliament comes to consider the forthcoming Criminal Justice Bill it could usefully turn its attention to the quality (as opposed to quantity) of punishment meted out to offenders. The government has already declared its intention to formulate a bifurcated system of penalties: on the one hand, imprisonment, in even lengthier terms than at present, for those who have committed serious crimes of violence. (One may quarrel with the notion of lengthy incarceration; but there is no reasonable objection to locking up dangerous offenders so long as they present a real risk). On the other hand, property offenders should normally not be sent inside but be subjected to non-custodial penalties.

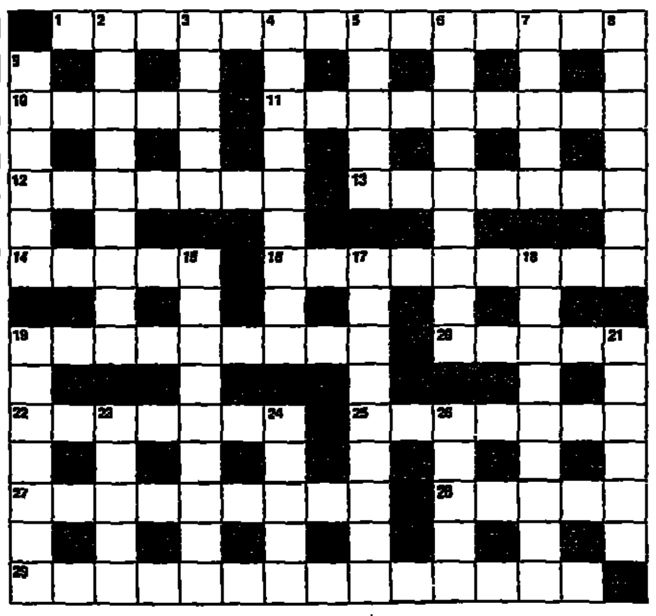
The dilemma facing Mr Justice Henry was that the enormity, in money terms, of the dishonesty of the Guinness Four was such as inevitably to invite condign punishment. Public opinion would seem to cry out for immediate imprisonment, and nothing less. For the judge to have gone down the non-custodial (plus suspended sentence) route of penalty would have been to anticipate the rational penal system of tomorrow.

Louis Blom-Cooper QC

Justinian will appear fortnightly

CROSSWORD

No.7,361 Set by DANTE



ACROSS

1 Position adopted by idlers in desperate straits (5,2,3,4)
10 Don't take time off (5)
11 I stay true to the principle of self-denial (9)
12 Drag man out to see aged parent (7)
13 Peak time before break (7)
14 Art of piano playing (5)
16 Arrange a bed and board on the borderline (9)
19 Land of Hope (9)
20 A substitute for medicine (5)
22 Rise for the workers? (7)
25 Money that's not well earned (4-3)
27 Many return capital and a batch of notes (9)
28 A far cry from the Tyrol (5)
29 That quick prowl round to find cover (9,5)

DOWN

2 Gypsum and basalt are different (9)
3 Work to make some dough (5)
4 Place of refreshment for curious Great Dane (3,6)
5 Have an oral test? (5)
6 Essential spirit (9)
7 A point about wood for burning (5)
8 Infantile habits (7)
9 Soft illumination leads to engagement (6)
15 Mother superior? (9)
17 The growth of a fairy-tale (9)
18 Retract support on quiet deal that's been arranged (4-5)
19 It unfolds and gives way (7)
21 Might take to the air for a short time (6)
23 Persuade an agency girl to start typing (5)
24 Slow scoring rate? (5)
26 An animal that's shy backs up (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 20.

EUROPEAN DUTY FREE

Plans for a single market have prompted a battle royal over the future of duty free shopping in Europe. **David Churchill** reports that the fighting remains evenly balanced and the role that the consumer plays may be crucial for the future of the industry

An industry in turmoil

THE European duty free industry is in turmoil. Will intra-community duty free shopping be banned after 1992 when a single market between the member states comes into force? Or will the concerted lobbying efforts by European airlines, airports, ferries and companies in the Scotch whisky and cigarette industries persuade Brussels to delay its proposals?

The battle looks fairly evenly balanced. Ms Christiane Scrivener, European Community taxation commissioner, made clear last month that Brussels was holding firm: "You can't have everything," she said. "You can't have a single market and still say you are going to benefit from duty free sales. That would be impossible."

But Mr John Douthwaite, secretary-general of the Duty Free Confederation, also re-affirms the industry's viewpoint: "The effects of abolishing duty free shopping after 1992 would be to everyone's detriment and nobody's benefit."

The Duty Free Confederation is the UK arm of the sophisticated European-wide lobbying operation under way to convince member governments and the Brussels administrators that duty free should stay in force, however illogical it may seem in the face of harmonising Community tax and fiscal policies.

It is a fight where those who shop in duty free outlets have seemed to show scant concern about the threat to their access to lower-priced goods. Mobilising consumer support for their campaign is one of the objectives of the Duty Free Confederation and airport travellers especially are being targetted to build up public awareness of the threat to traditional duty free shopping.

The status quo in duty free is due for a change. While charter airlines have duty free sales techniques down to a fine art – their very livelihood is said to depend on how much duty free is sold in flight – scheduled airlines have been rather tardy in pushing sales in flight. British Airways, however, recently threw down the gauntlet to the traditional airport outlets with a £200,000 advertising campaign aimed at persuading travellers that it was cheaper to buy in-flight rather than at the airport.

Airport duty free retailing is being forced to allow in more competition as a result of pressure from the Office of Fair Trading. The OFT had received complaints about high-prices at British airports and the BAA – which earns some £100m a year, about a fifth of its profits from duty free sales – has responded by allowing more competition.

An experiment will start next spring at Heathrow airport's terminal four where two duty free outlets will be operated by separate companies in an effort to give consumers wider choice. At present Allders and Trusthouse Forte dominate airport duty free sales and control 11 shops at BAA's 12 main airport terminals. Other companies, such as Debenhams and Selfridges, will be invited to compete for the new contracts. Harrods operates a shop at the newly refurbished terminal three at Heathrow.

Duty free sales are big business. World sales were estimated at some $11.5bn in 1988, with $5.36bn of these coming within Europe. For the airline and airport industry alone, consultants Coopers & Lybrand recently estimated that duty free goods worth £1.19bn were sold by EC airlines and airports.

How did it all start? The origins of duty free shopping are not well documented but the romantic history of duty free suggests that it started in 19th century Britain when aristocratic gentlemen, returning from the Grand Tour, claimed they needed the sustenance of wine on the journey home.

It became accepted practice to permit the import of opened bottles of wine, and this later became an unopened bottle of wine for the same purpose. In addition, the Royal Navy imported rum for distribution to crews from the 17th century onwards until the 1950s.

It was the development of manufacturing industry that led restrictions on imports, by levying duties on them, to protect domestic industries. In the 20th century, the advent of ocean-going liners provided the opportunity for high duty goods at home to be bought elsewhere at lower prices and consumed on the journey. Duty free sales evolved by custom and practice.

Preparing trolley loads of duty free goods before take off

Modern duty free shopping really emerged in the late 1940s as a result of the post-war expansion of civil aviation. The first duty free shop was opened in the late 1940s at Shannon airport in Ireland, followed by Prestwick in Scotland in 1951. Both these airports were important stop overs for refuelling international flights. At first it was just liquor that could be sold duty free, but these was soon followed by tobacco and perfumes.

The concept of duty free has proliferated throughout the world: Moscow's international airport, for example, has two duty free shops while a duty free service is available at Leningrad's Pilaovo airport.

The traditional duty free products of liquor, tobacco, and perfumes – while still accounting for some two-thirds of all duty free sales – are very much in decline. In their place are a variety of other products being sold, ranging from consumer electronics through to designer clothes, jewellery and watches.

Some observers of the duty free market believe that the present industry pre-occupation with the potential abolition of duty free is leading the industry astray.

"Where is the dynamism and pioneering attitude that got European duty free to the point it is today," asks Mr Colm McLoughlin, general manager of Dubai's duty free operations.

"European duty free has been confronted with problems before. But these problems have usually been resolved."

Some European duty free outlets are responding to the challenge laid down by the 1992 changes. SAS Trading, for example, this year opened Scandinavia's largest airport shopping development at Stockholm's Arlanda airport. SAS is also developing ways of making airport shopping more hassle-free: it offers pre-flight mail order buying, for example, similar to schemes operated by charter airlines such as Denmark's Sterling Airways.

Others are taking steps to target important markets such as the Japanese leisure and business travellers. Japanese travellers, for example, only account for 5 per cent of passengers at London Heathrow airport's terminal three, but over 25 per cent of the total spent on duty free. At Paris's international airports Japanese customers account for some 80 per cent of sales of Omega watches; Dunhill says that 50 per cent of its sales are to Japanese or Asian customers.

The problem facing duty free operations in Europe is the uncertainty of what will happen after 1992. The history of EC initiatives for Europe-wide changes is littered with compromises and ad hoc arrangements. Many fear that this will happen with the duty free area.

The most likely outcome of the present dispute between duty free operators and Brussels is some sort of compromise. At best this will mean a delay of several years before duty free is finally abandoned, giving the industry time to come to terms with developing shopping initiatives to counteract the loss of mainstream duty free volume sales from liquor and tobacco products.

The industry is supporting ideas for greater vendor control. This includes special shopping coupons given to buyers of airline tickets or the more sophisticated technique of a smart card – an electronic shopping card which recognises whether or not the holder is entitled to duty free discounts on purchases.

Part of the problem of reaching a consensus of opinion on duty free is that most member governments have differing degrees of interest in the issue. The British government, which might have been expected to be very concerned at the impact on industry if duty free goes, has been rather ambivalent. On the one hand, expressing concern at possible job losses but, on the other, supporting the idea of liberalising restrictions on trade and travel.

But does the duty free shopper really care? A recent market research survey, by the Harris research company, found that most duty free shoppers only bought goods because they were bored. Given the potential for more airport delays in the 1990s as the skies become more crowded, it would seem likely that airport customers are unlikely to abandon airport shopping, whatever the price to be paid.

IN THIS SURVEY

Editorial Production: Phillip Halliday

Duty free shop in Moscow

DUTY FREE: FOR AND AGAINST

Not such a clear-cut case

THE CASE for abolishing duty free within the European Community is fairly clear: as harmonising of fiscal structures takes place after 1992 it would be out of place to grant special tax privileges to ferry and airline travellers and not to any other intra-community consumers who cross national borders.

But the case for maintaining duty free is also persuasive to those whose very livelihood depends on it. The outcome of the present high level of lobbying among member states and in Brussels will depend, however, on how others are persuaded.

The duty free industry is slightly annoyed that it is having to spend any time and effort at all in defending its existence.

"Really, it should be up to the people in Brussels to make out an overwhelming case in favour of scrapping duty free," says Mr John Douthwaite, secretary general of the Duty Free Confederation.

"Since duty free exists now and works to everyone's advantage, it seems that it should be up to the Commission to spell out the advantages to consumers, companies, and governments alike from ending the present arrangements," he adds.

The arguments against scrapping duty free trading are based on several levels. The Duty Free Confederation and its related European counterparts have commissioned academic studies to support claims about the likely impact on the main suppliers of duty free shopping and services.

Airports are said to be among the biggest losers. East Midlands Airport, for example estimates that its annual loss if duty free is abolished would be £1m.

General estimates are that duty-free keeps landing charges down by between 21 per cent and 25 per cent: the obvious conclusion being that, if duty free goes, airline landing charges will go up and so will airline prices.

The impact of abolishing duty free sales will, in theory, also harm the cross-channel ferry industry at a time when it faces strong competition from the Channel Tunnel.

Duty free sales are estimated to account for nearly two-thirds of all on-board sales and profits are said to keep fares down by an average 23 per cent on channel routes and 12 per cent on routes between the UK, Belgium and The Netherlands.

The case for maintaining duty free is also persuasive to those whose very livelihood depends on it

Yet such seemingly clear-cut relationships between prices and costs are never as simple. European airlines already operate in a largely protected market place as a result of national governments' determination to maintain sovereignity over scheduled air routes. But, equally, they are operating in an atmosphere of increasing competition.

While abolishing duty free sales would put pressure on the airlines to increase prices, they may find themselves restricted from doing so by market forces and would have to look to other ways to maintain competitiveness.

As one airline executive puts it: "It would be nice to think we could just pass on any extra costs to our customers, but the real world isn't like that: we would have to think very carefully before jacking up prices by as much as is being suggested by the duty free lobby," he says.

But the ferry operators and airlines will both probably find their pricing policies in the 1990s heavily influenced by demand and the general state of the world economy.

The World Tourism Organisation and other forecasters maintain that international travel is set for steady, if unspectacular, growth in the 1990s of about 4 per cent per year compound.

Any price increases as a result of the abolition of duty free, therefore, would probably limit but not totally inhibit this growth.

The travel trade also says it is worried by the implications of the ending of duty free.

Apart from the impact on charter airlines, which rely heavily on duty free sales, it could also see holidaymakers switching to non-EC resorts such as in Morocco or Tunisia and away from holidays in Greece and Spain.

Among the many products that could face a slump in sales by the end of duty free, Scotch whisky would probably be among the hardest hit. The Netherlands Economic Institute, which carried out an economic survey of the implications of ending duty free, suggests that between 40 per cent and 70 per cent of existing duty free business would be lost.

The problem with such reports, however, is that while the bodies concerned are undoubtedly totally independent in their research and findings, they are still producing doom scenarios paid for by the lobby groups who are trying to save duty free sales.

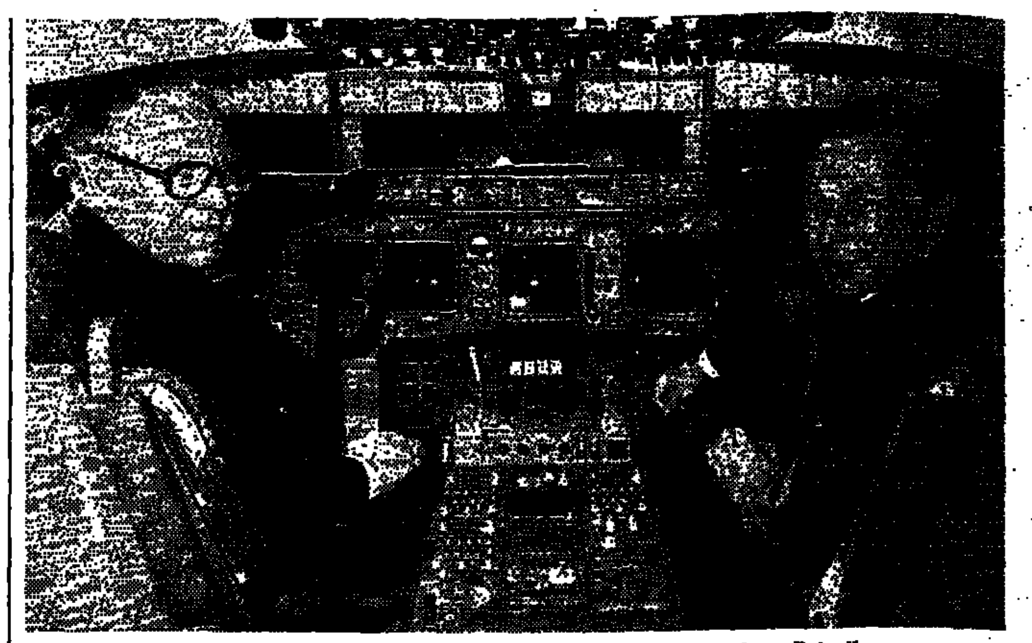
What would be most helpful to the present debate would be a truly independent study of what might happen when duty free goes, paid for by neither the Brussels administration seeking the change nor the industry which wants to maintain the status quo.

Such a study might find that the loss of duty free sales would be relatively damaging in the short-term to a wide range of interests, but that the effects would probably even themselves out after a few years.

It is whether community governments really want the short term hiatus that scrapping duty free will entail that will probably decide the timetable for duty free's abolition and its consequent effects on the sectors involved.

David Churchill,
Leisure Industries Correspondent

Frontier duty free shop on the border of Finland and the Soviet Union, near Vyborg



Lord King (left) and Sir Colin Marshall, at the helm of British Airways, fear distortions

Is there life after 1992 for European Community duty free sales?

Politics emerges as the real barrier

AS far as the European Commission is concerned there is nothing more to say on the subject of duty free. There is no need for any special proposals on the subject, nor any special debates. In the single market duty free sales will be illegal: it is as simple as that.

However, the screams from the producers and vendors of duty free are not getting any quieter, and even some member states are beginning to come round to the view that there is something in duty free that needs to be saved. The Commission has lost most of its battles in the difficult area of indirect taxation – it is just possible that it could have to back down on this one too.

From a logical viewpoint, the Commission's argument is a strong one. In a single market, you cannot start giving people special breaks for moving from one part of that market to another. Even before the talk of the single market, there was no particular justification for duty free sales.

They are simply a Government subsidy to one sector; the problem is that the gimmick has worked, the market exists and getting rid of it is not going to be painless.

The future of duty free sales is implicitly dealt with in the Commission's two existing proposals on the subject of indirect taxation, on VAT and on excise - which would have the effect of making all duty free sales illegal. The proposals would abolish any notion of import and export within the Community, and with them, they would abolish the machinery of travellers allowances. All goods would be taxed – there is no provision for special exceptions – either for duty free or for any other sort.

However, these two proposals are far from having been agreed by member states. Like all matters that concern taxation, they need the unanimous approval of member states – something that is proving hard to get. The Commission argues that if member states are unhappy about the duty free consequences of the proposals, they can put forward their own amendments. These amendments would also need the agreement of everyone.

"No one gives this a cat in hell's chance" was a commission official's view of the chances of victory for the duty free groups. He did nevertheless welcome the fact that the industry was becoming rather more sensible in their lobbying. "They used to behave as through it was a God-given right. At least they now realise its a politicians' given right," he said.

One difficulty is that the pattern of duty free sales is different in different member states. The UK, which is far and away the largest both in sales and in manufacture, is taking a somewhat ambivalent position on the issue.

The real problem is a political one, and the temperature on this score is yet to be tested

The Netherlands, for which duty free sales is also important, is likely to put up a strong fight. By contrast many other countries, which have never acquired the habit of buying a bottle of sprits every time they get on a plane, are most unlikely to actively support measures to keep the market alive. Thus a total support one way or another is not going to be reached easily.

The issue raises particular problems for British politicians. In theory, the UK is one of the member states committed to the principle of a free market, and intellectually at least it supports the Commission's position. However, given the importance of the industry, it has said that if it can be found that "real economic damage" is done by killing the industry off, it will re-consider the matter. It is viewing the matter as a practical one, and if it is convinced that a wealth-creating industry is being lost, it is likely to start the fight to save it.

So far, British officials are sceptical about some of the research that has been produced on the importance of the industry. As most of it has indirectly been sponsored by the industry itself, there is no reason to believe that its predictions would necessarily come to pass. A study produced last year by the Netherlands Economic Institute on behalf of the duty free lobby claimed that 7,200 jobs would be lost directly in duty free shops, and many more in the manufacturing and tourist industries. As a result of the lost profits, air fares would go up by 10 per cent and ferry fares by 23 per cent.

Some member states argue that the principle of the single market may not be that important. Indeed, that principle has been breached in the Commission's proposals for VAT and excise duties, which make a distinction between the tax arrangements for goods consumed at home, with those consumed in other member states.

If the Commission does have to accept that duty free sales should stay, there remains the serious problem of how the market should be controlled once frontiers are removed. The industry has suggested that the vendors could control sales. The Commission would probably like to throw cold water on the idea; unfortunately, as it suggested this idea to the industry in 1983 as a means of making the existing market work more efficiently, it cannot be too dismissive of it.

Instead, the Commission has suggested that this system of control might be illegal after 1992. The single market act abolishes frontiers: it is possible that the system of controls by vendors would constitute frontiers, and would therefore be outlawed.

There are practical problems to the proposed control system. Can the vendors – in whose interests it is to sell as much duty free as possible – act as the policemen for the system, making sure that sales are strictly limited?

Even before the talk of the European Single Market, there was no particular justification for duty free sales

More difficult is how the system is worked. If each traveller can only buy duty free in one place, the system might be fairly straightforward. However, this solution is not likely to be acceptable to the industry. If instead they could buy it at multiple points along a journey, officials are worried that the control, perhaps with special punched computer cards might start getting a bit complicated. Whatever system of stamps was used would have to serve not just for the passenger but would need to allow the tax man at home to keep track of volumes.

There is little doubt that these practical problems can be solved if need be. The real problem is a political one, and the temperature on this score is yet to be tested. Because there has been no proposal from the Commission, member states have still not discussed the matter in any detail. They are going to have to address the issue by themselves, because the Commission is showing no signs of doing anything.

Lucy Kellaway, Brussels

SCHEDULED AIRLINES

A gloomy horizon

EUROPE'S scheduled airlines are not looking forward to 1992. The creation of the single free market will lead to higher air fares in the European Community and a decline in passenger numbers, according to industry analysts.

The proposed abolition of duty and tax free sales will hit demand for flights between member states and raise costs for EC airlines, according to the latest report on the impact of the single free market commissioned by the International Civil Airports Association.

Scheduled carriers, however, are not expected to suffer as badly as their charter-based competitors from the loss of duty free income.

Large airlines such as British Airways rely less heavily on income generated by on-board sales than smaller charter operators that compete to sell discounted seats to tour operators.

The main impact of the abolition on duty free shopping will be in airport charges. Coopers and Lybrand Deloitte, the London firm of accountants earlier this year told the International Civil Airports Association that Community airports face a Ecu350m cut in profits after 1992.

They are expected to recover the loss from duty free abolition through increased charges for airlines. "Landing and passenger related charges would have to be raised by an average of 14 per cent," the accountants said.

The airlines, in turn, will eventually have to offset the increased handling charges by raising fares.

Sir Colin Marshall, deputy chairman and chief executive of British Airways, has warned that the cost of changes to the industry's infrastructure after 1992 will run into billions of pounds. "Mr and Mrs Flying Public will pick up the bill for these necessary improvements at the end of the day," he said.

The BA chief executive is more concerned at proposals to extend value added tax to transport as part of EC moves towards fiscal harmonisation.

Intercontinental airlines with offices around the world would have to manage a chaotic fare structure to meet the VAT proposals, according to Sir Colin, who said: "A passenger can buy a ticket in Alaska for travel between London and Edinburgh. Where would the VAT element of that fare be paid? And what would be payable on a ticket from Glasgow to non-EC Switzerland and then on to Italy? Would a non-EC intercontinental airline pay VAT on a European sector, and to whom?"

Duty free concessions can be removed only once all other trade and travel barriers are gone, he added.

Smaller scheduled carriers are likely to be harder hit than airlines of the size of British Airways. Companies such as Ryanair, the Irish airline which operates routes to Eire from Luton Airport, will find its ability to offer discount seats curtailed as increased airport charges start to represent a higher proportion of costs.

Fares of flights such as Ryanair's daily service between Luton and Shannon could rise dramatically. Coopers and Lybrand Deloitte's recent report on the future of the duty free industry said: "On such routes, scheduled air fares could rise on average by between 10 per cent and 20 per cent, with the lowest leisure-related fares being even more adversely affected."

Some carriers such as Air France have stopped offering duty free on inter-EC flights. Air France decided duty free income was not large enough to warrant the disruption to other on-board services.

The increased costs and seat prices likely to be forced on European airlines could be good news for non-EC carriers operating within the Community. Airlines such as Pan Am, the US carrier which sells discounted seats on the London-Frankfurt leg of its flight to Delhi, could benefit from higher fares charged by European competitors. But these airlines would also have to bear the brunt of increased airport charges.

The main danger for scheduled carriers is higher airport charges. BAA, formerly the British Airports Authority, which earns about £100m a year from duty free sales, could have its profits halved by the abolition of duty free sales. BAA's biggest clients, the scheduled airlines, would be expected to make a greater contribution to its income.

Sir Colin Marshall warns that the changes planned for 1992 could lead to "distortions and anomalies just at a time when we should be removing the old ones."

Tim Burt

World duty free sales of fragrances and cosmetics amount to FFr19bn

PERFUME

The scent of heavy losses is in the air

EUROPEAN duty free sales in perfume and cosmetics have been estimated at about 15 to 20 per cent of total sales in the industry. The loss in sales, should duty free be abolished, could be heavy.

According to the Federation Française de l'Industrie des Produits de Parfumerie, de Beauté et de Toilette, sales at duty free outlets have increased by an average 24 per cent per annum with cosmetics contributing heavily to this growth.

Mr Jacques Greep, international director of perfume at Christian Dior, says that world duty free sales of fragrances and cosmetics amount to FFr19bn while European sales make up FFr5.6bn of this.

He adds that the loss of perfume sales, should duty free be abolished, would affect France heavily. About 80 per cent of fragrances and cosmetics sold duty free is of French origin.

The perfume industry is made more vulnerable because of the nature by which it is bought from duty free outlets. A survey for the Netherlands Economic Institute, in 1989, found that 60 per cent of purchases of perfumes and cosmetic were made by business travellers, while 40 per cent were by tourists.

It said that business travellers tended to buy luxury products such as perfumes as a present while tourists more often bought for personal use.

Such impulse purchases are particularly important for luxury products such as perfumes and cosmetics.

The survey has predicted that, based on the assumption that 60 per cent of passengers in the EC are travelling within the Community, about 60 per cent of intra-EC duty free sales of perfume and cosmetics will be lost. This initial loss will amount to Ecu200m.

"All analyses we have made show that roughly speaking we would lose 60 to 65 per cent of sales from duty free outlets in Europe should duty free go," confirms Mr Greep.

Within the industry there are fears that the loss of sales to duty free outlets will not be recovered on domestic markets. Impulse buying is, it says, less common in domestic markets and the recovery rate could amount to, at most, 25 per cent.

Mr Greep is even more pessimistic.

"According to our specialists, it would not be possible to recover more than 12 to 15 per cent on the domestic markets," he said.

The losses to the industry would not be purely financial. Like tobacco, perfumes and cosmetics benefit from the shop window provided by duty free outlets and, as a result, the loss in the promotion of products would be severe.

"The loss of window and advertisement space would be a loss for us and for the tourist industry," says Mr Greep.

The perfume industry is made more vulnerable because of the nature by which it is bought from duty free outlets

In addition the French perfume industry has strict rules as to how its products are sold. It has the right to refuse supplies if an outlet does not comply to the criteria that are set out by industry and approved by the government in France.

Duty free outlets are exempt from those criteria. Airport shops that continued to trade as duty paid outlets would have to make the necessary changes to conform to the industry's regulations.

This, says Mr Greep, is another danger facing duty free outlets.

The industry has certain contingency plans. It intends to maintain outlets at airports. This way it could still benefit from the impulse buying of travellers. Other plans relate to new marketing techniques and new products.

In France, the industry is lobbying heavily both French ministers and the European parliament in Strasbourg.

However, Mr Greep says: "We have not really thought about how we will compensate losses because we have to be optimistic."

It isn't just optimism that explains the lack of preparation. There is scepticism within the industry over whether tax harmonisation will have been reached by January 1 1993.

"I don't think duty free will be abolished because tax harmonisation is one of the conditions for a single market," says Mr Greep.

Like other duty free industries, the perfume industry seems bewildered as to what the point of abolishing duty free would be.

"Who gains?" asks Mr Greep. "The industry loses, airports lose and ultimately the consumer loses. It would be a nuisance for everybody."

Emma Tucker

The best savings are on spirits and cigarettes with high rates of excise duty

Are the savings on duty free goods worthwhile?

A bargain in spirit

THE POPULAR view of duty free shopping seems to swing between two extremes. Duty free shops are criticised for the high mark-ups on the goods but the large volumes of duty-free sales that in practice many people think they're making worthwhile savings. So are consumers getting a good deal?

Generally, consumers make the best savings on spirits and cigarettes, as they should save on the excise duty which normally makes up a large proportion of their price, as well as on VAT.

On gift items such as cameras, watches and perfumes, consumers save only on VAT. A survey of duty free prices in Which? magazine showed that duty free spirits at airports in the UK were about 40 per cent cheaper than in the high street for products. For a luxury product, such as Glenfiddich whisky there was a 30 per cent saving.

For perfume, UK airport prices were about 20 per cent lower than high street prices. Compact cameras came off less well, with savings of just over 10 per cent on average for two of the three in the survey. For the third, you saved only 5 per cent – and it cost less in some local shops than at Luton and Heathrow airports. So the nagging suspicion that some goods available duty-free may be purchased for the same price or cheaper in the high street may occasionally be right.

Travellers may do better to wait and buy at the airport on the way back. British airports are not particularly cheap for spirits and perfumes compared to the airports in some European countries. Amsterdam and Athens airports, in particular, have low prices for these.

In some countries, such as Spain, where taxes on spirits are low, you may find cheaper spirits in local high street shops abroad than duty-free at the airport in the UK or on the plane. Travellers to a country with high taxes on spirits, such as Denmark, though, should stock up before they go – the high street price for a bottle of Johnny Walker Red Label whisky is twice that in the UK. Duty-free spirits often have a higher percentage of alcohol to volume than usual – giving more alcohol for your money.

In spite of the bargains, duty-free shops do charge a considerable mark-up on the spirits and cigarettes they sell. For example, a 1 litre bottle of Gordon's gin in a supermarket costs about £11.75 (Which? survey). Excise duty and VAT account for £8.47 of the price – £3.28 is the cost of the gin, including the profit for the manufacturer and the shop.

In a duty free shop, as you don't pay either excise or VAT, you might expect a bottle of Gordon's gin to cost about £3.28, as well. Instead UK airports were charging between £6.65 and £9.29 – a minimum mark-up of 100 per cent.

On a pack of 20 king size cigarettes costing £1.75, almost £1.25 is excise and VAT. If the full saving was passed on to consumers, a duty free carton of 200 cigarettes would be £5. But UK airports were selling them for almost double this – from £9.45 to £9.99.

The IDFC claims that without the profits from duty free sales, air and ferry fares and package tour costs would rise

Although consumers are making savings, the duty free operators are making even better profits.

BAA justifies the large mark-up on duty free goods at Heathrow and its other airports on the grounds that, like many other airports, it uses the profits to subsidise landing charges, keeping fares down, and to develop new airport facilities.

However, this is not necessarily the most efficient way of running airports – nor is it clear why it's sensible to get people who buy duty frees to subsidise the air fares of other travellers.

BAA controls the prices of goods in its duty free shops by insisting that the concessionaires who run them offer minimum price discounts over high street prices or manufacturer's recommended retail prices. These price guarantees feature heavily in BAA advertising.

In general, the Which? survey found that they did stick to their promises, except for the three compact cameras – none met the 15 per cent discount target. But apart from providing a useful advertising tactic, another advantage to BAA of this method of price setting is that if prices go up in the shops when excise duty is increased in the Budget, BAA's prices can follow suit.

So duty free prices rise, even though no excise duty is paid on duty free alcohol and cigarettes.

Consumers might get a better deal if they could shop around between different duty free shops. At the moment competition is very limited. Within each airport terminal, there is generally only one operator selling the same types of duty free goods.

BAA says it intends to start introducing directly competing duty free shops. Other airports should do the same.

The creation of the Single European Market may spell the end for duty frees. It's argued that there's no logical reason for duty free sales, as people will no longer be leaving one customs zone before entering another. In addition, if there are only very limited customs checks, it could be difficult to make sure travellers keep to their allowances.

The International Duty Free Confederation, which represents the industry, claims that without the profits from duty free sales, air and ferry fares and package tour costs would rise. It's arguable, however, how much impact this will have.

The IDFC proposes a system of vendor control – duty free shops should ensure travellers do not exceed their allowances. They could be made legally responsible for this, replacing customs control. It's still unclear what will be decided, although the Council of Ministers will have to make a decision soon if arrangements are to be made to move to a new situation by 1993.

It's logical that duty free sales within the EC should come to an end as the single market develops. However, there's a good argument, for them continuing until the limits on the amount of goods bought duty and tax paid abroad are abolished – which is due to happen from 1993. That way consumers won't lose the perk of buying duty frees before they see the benefits of the new system.

Stella Yarrow,
Consumers Association

Britannia, which operates more than 40 aircraft, fears that price increases will be far higher than estimated

CHARTERED AIRLINES

Prepared for a hard landing

BRITAIN'S charter airlines are preparing for a hard landing. *The European Community* wants to abolish the duty free sales which many of the carriers *rely on for the safety* margin between profit and loss.

Income from duty and tax free sales made up almost all the profit for some carriers last year and airline executives fear the EC plans will increase costs and lead to redundancies.

If the present downturn in European holidays continues into 1992, airlines could lose a vital source of income at a time when they are struggling to compete in a shrinking market.

The loss of duty free concessions and higher airport charges are expected to increase the price of charter flights by up to 6.6 per cent. The knock-on effects would be severe. Inclusive holiday costs would be sucked into an upward spiral which would hit demand for inter-EC traffic.

A report for the International Airports Association by Coopers and Lybrand Deloitte, the London-based accountancy firm, warns that the number of inter-EC passengers could fall by more than 2m after 1992 and European charter airlines will lose about Ecu210m a year.

Mr Bob Parker-Eaton, deputy managing director of Britannia Airways – which claims to be the world's largest charter airline – says the abolition of duty free concessions will rebound four times on EC airlines.

"The departure airport, the outbound flight, the overseas *airport and the inbound flight* will all lose the opportunity to make duty free sales and all will lose *revenue* which will have to be replaced. The passenger will have to pay."

Britannia, which operates more than 40 aircraft, fears that price increases will be far higher than estimated by the industry analysts at Coopers and Lybrand Deloitte. Mr Parker-Eaton says the element of a holiday price represented by airline costs could rise by up to 20 per cent.

Such increases could change the complexion of air travel in the EC, where 69 per cent of all international travellers fly on charter flights, according to Britannia.

In Britain, the duty free proposals could have a serious effect on staffing by charter airlines. On average, staff receive commissions from duty free sales equivalent to 20 per cent of their salary. Coopers & Lybrand Deloitte predicts: "If duty free allowances were to be withdrawn, there would be reductions in both cabin crew and ground staff."

Operating margins would be hit by increased charges as airports raise their own prices to offset *duty free losses*. The tough competition in the UK has this year seen several airlines cease trading, including British Island Airways, Paramount Airways and Novair.

Elsewhere in Europe, the forecasts are equally gloomy. A study by the Netherlands Economic Institute (NEI) predicts that the EC plans will force Dutch tour operators to increase seat prices by up to 7.5 per cent.

Meanwhile, Denmark's three charter airlines – Sterling Airways, Maersk Air and Conair – stand to lose more than profits of Ecu16m a year if the proposals to abolish duty free are *endorsed* in Brussels. "Recovering the reduction in profit means an increase in fares (in Denmark)," says the NEI.

In Ireland, duty free abolition will put Ecu15m at risk, according to the report, which estimates there would be fare increases of 10 per cent on inter-EC flights.

Only in France, where about 14 per cent of passengers travel by charter flights, are the EC proposals expected to have little effect.

Most French tour operators hire aircraft and crew from Air France, the national *flag* carrier, which does not offer duty free sales on short inter-EC flights.

"The impact on passenger transportation by air is considered marginal," the *NEI* says.

Britain's carriers are not so optimistic. Mr Parker-Eaton says *moves to abolish duty free* could send shock waves through the charter airline *industry and, inadvertently*, push some carriers to the brink of bankruptcy.

"There is a very real danger of the baby being thrown out with the bath water. Because of its dependence on the leisure passenger and on fierce competition and a price-sensitive market, charter will be hit far harder by any abolition of duty free privileges than will scheduled airlines," he says.

Holidaymakers facing higher fares within EC destinations are expected to choose alternative short-haul destinations such as Tunisia, Morocco and Cyprus.

Charter carriers are trying to prepare for 1992 by selling non-dutiable items on their aircraft. Britannia, for example, last year sold watches worth £1.5m to passengers.

Mr Parker-Eaton says airlines are under pressure *to* raise ticket prices and seek non-EC destinations.

*He is lobbying hard, how*ever, for the EC to abandon its duty free plans in favour of *vendor control, the Scandina*vian system under which airlines stamp passengers' tickets *showing they have purchased* the legal allowance of tax free goods and no more.

Mr *Parker-Eaton believes* such a system allows airlines to retain duty free sales with*out requiring checks at fron*tier controls.

He hopes "wiser heads will prevail and that inter-EC duty free privileges will continue, policed by a system such as *vendor control*.

"There is too much to lose not to do so."

Tim Burt

AIRPORTS

A double disadvantage for the European passenger

ABOLISHING duty and tax free sales may well prove one *of the most unpopular* measures the European Commission has ever envisaged.

Not only will their abolition mean the average Euro-consumer will be unable to buy *cheap spirits and cigarettes for* his or her holiday – let alone perfume and aftershave on the way *home – but the chances* are that he will have higher air fares for the privilege.

Brussels argues *that* once VAT rates are harmonised sometime after 1992, there will no longer be any logic in maintaining tax free sales. Admittedly, the harmonisation is not yet agreed – some EC governments have strongly resisted the proposals to align value-added and excise taxes more closely.

Most airports are sure that little will actually happen on January 1 1993

However, the probability is that sometime in the mid-1990s duty free sales at airports will come to an end for intra-community travellers.

The trouble is *that those* duty and tax free sales support a significant industry which incidentally provides an elegant voluntary cross-subsidy for other airport activities.

In 1988, Ecu1,365bn-worth of duty and tax free goods were sold by Community airports, according to a recent study by Coopers & Lybrand, the accountancy firm for the International *Civil Airports* Association. About half of these sales, Ecu730m, were sold to intra-community passengers. It is this revenue that would suffer from any abolition.

The effect on airports could be considerable. Normally, the airports receive a share of the turnover from duty free shops. At Schiphol Amsterdam airport, for example, sales in 1988 of Fl 74m accounted for about 15 per cent of the organisation's income.

"The abolition of tax-free sales by passengers travelling in the EC would be a considerable financial blow to the airport," explains Mr Berco Leeftink, a manager in the commercial exploitation department at Schiphol.

"About half of Amsterdam airport's *customers have destinations within the EC. If they* are no longer allowed to make tax free purchases that will *mean a cut in airport revenues* of about Fl 35m a year," he says.

*Other airports would be sim*ilarly affected. Aéroports de Paris receives about 10 per *cent of its turnover from such* duty free sales.

However, the organisation *that would probably be most* hit is BAA, formerly the British Airports Authority which has been *highly successful in* marketing duty free sales at Heathrow and Gatwick airports. Last year, the company earned more than £100m – about 15 per cent of its turnover – from duty and tax free sales.

The airports argue that income from duty free helps keep airport charges down. Although some of the loss in in revenue from duty free might be made up by other commercial activities, most of the loss would have to be borne by the airlines through increased handling charges.

Additional costs from the refurbishment of the airport terminal buildings would also have to be passed on. The problem *is that* the current separation of domestic and international passengers would no longer be sufficient.

Intra-community passengers would have to be separated *from those travelling* from non-Community destinations, but would also have to be kept apart from domestic passengers for security and immigration reasons.

BAA *estimates that* at Gatwick airport, domestic and intra-EC passengers account for about 60 per cent of total traffic.

Mr Barry Goddard, head of parliamentary affairs at BAA and a director of the Duty Free Confederation, believes that refurbishing could take five years to complete and cost tens of millions of pounds at the BAA airports alone.

Although the new terminal at Stansted is designed for maximum flexibility, it was never envisaged that the terminals at Heathrow and Gatwick would have to be altered so radically.

The airports are faced with a tricky problem in passing on additional costs and the losses from duty-free, according to Mr Christopher *Smith*, a *consultant* at Coopers & Lybrand.

Non-EC airlines will be *reluctant to bear the additional* costs because they will still be carrying passengers able to buy duty-free.

EC carriers will argue that their passengers, who should no longer need to pass through customs and passport controls, will use fewer airport facilities.

Certainly the airlines will prove vociferous if airport charges increase as a result. Even before the Gulf crisis, they were suffering from increased costs, in terms of labour, ownership of aircraft, air traffic control fees and airport charges. Aviation fuel prices – which for short-haul *operations* can make up about 20 per cent of costs – increased by 40 per cent between July 6 and August 7 on the Rotterdam spot market.

Any raising of airport charges caused by the end of duty free sales would undoubtedly be passed on to passengers in the form of higher ticket prices – hence the double disadvantage for the Euro-consumer.

The airports are clearly aware of the potential problems. When the ICAA held a symposia in 1986 on the implications of the creation of the European *Single market for* the industry, only 176 people attended. At the same event in *1989, there were more than 400.*

Most of the airports are sure that little will actually happen *on January 1 1993 because of* the problems involved.

"I am sure that a compro*mise will eventually emerge*, just as it has with all EC subjects," says Mr Philippe Hamon, *director of the* European Affairs office at the ICAA.

"It probably won't happen until the last moment, sometime between July 1991 and July 1992. Our main concern is that the compromise should harm neither passengers nor airports."

Paul Abrahams

Top airports by duty free shop sales ($m)

Airport	Revenue
*Honolulu**	450
London Heathrow	220
Hong Kong Kai Tak*	215
Amsterdam Schipol	165
Singapore Changi*	160
Paris CDG	150
Taipei CKS*	140
Frankfurt	135
London Gatwick	118
Seoul Kimpo	116
Osaka Itami	112
Anchorage Int.	107
Copenhagen Kastrup	96
Guam Agana	90
Tokyo Narita	90
Los Angeles Int.	78
Dubai Int.	66
New York JFK	62
Zurich Kloten	52
Paris Orly	52

*Sales in the city included
Source: Duty Free News

Caroline Fossey charts troubled waters for the ferry companies

A case of damage limitation

WORRYING TIMES lie ahead for ferry companies, especially those operating the popular cross-Channel routes. Not only is the Channel Tunnel scheduled to open in June 1993 but that year could see the threat to abolish intra-European Community duty free sales become a reality.

This will be bad news for all outlets selling duty free goods but ferry companies stand to lose the most. According to reports published by the Netherlands *Economic Institute*, profits on duty and tax free sales on the EC routes amount to £165m a year.

A good deal of this is ploughed back into the companies, helping with investment and modernisation plans. The profits help to keep fares down by as much as 23 per cent on some routes.

The day trip, popular because it offers passengers a chance to stock up on cheap goods, may lose its appeal. As the number of passengers dries up so the number of sailings would be reduced. This would mean less travel flexibility and more inconvenience for freight transport. Up to 400 people who are employed on the ferries could lose their jobs.

It all looks a pretty bleak picture with travellers having to pay high prices to travel on outdated ships with reduced facilities on board.

However, it is an inaccurate picture. From as early as 1987 when work began on the Channel Tunnel, the ferry companies were working on their answer – the superferry. Mr Dan Sten Olsson, president of the Stena Group, the Swedish-based shipping company which owns Sealink, said at a Financial Times Conference earlier this year that he believes that ferry lines will increasingly move closer to having a traditional cruise profile.

The facilities offered by these large ferries certainly bear this out. P&O European Ferries was the first to introduce its two superferries, the *Pride of Dover* and the *Pride of Calais*. Both can carry up to 2,290 passengers and cars each. A third ferry, the *Pride of Kent* will be converted to superferry status this winter.

Ferry companies are keeping passenger numbers below capacity and offering upmarket shopping and wine bars

The other ferry companies soon followed. They see services having to offer more than just a passage across the Channel. They want passengers to start their holiday as soon as they board and this means offering more comfort and entertainment. If passengers are relaxed and enjoying themselves, the companies believe they will want to spend.

At the moment, large duty and tax free shopping complexes attract customers and their cash. To make sure this spree continues after 1992, the ferry companies are considering new types of outlets.

Sealink is looking at the possibility of niche-retailing, a very upmarket department store, according to its passenger services department. The company believes that come 1993, it will lose the 12 per cent of its profits attributed to duty free sales on the shorter Channel crossings.

Fares are expected to rise by 5 per cent and the remaining 7 per cent should come from the up-market shops Sealink is considering as replacements to today's complexes.

A possibility is to offer franchises to certain popular shops which would then trade at prices similar to those ashore.

This year, Sealink launched its two superferries, the Fantasia and the Fiesta. It is hoping that by 1993 people will have tried the superferries at least once and will want to use them again. Sealink and P&O would like to offer a joint shuttle service between Dover and Calais once the tunnel has opened. This proposal has been rejected once by the Monopolies and Mergers Commission but the companies are planning to try again in 1993.

Sally Line is experimenting with the idea of franchising. Earlier this year, the Sally Sky was enlarged and can carry 1,800 passengers though numbers are limited to 1,500 to ensure space and comfort. Alongside the shops selling items by Gucci and Dior, is Benetton, the first popular high street name to be taken on board. Clothes cost the same as on shore but management reckons that once people are on board and in holiday mood, they will want to spend.

To ensure the right frame of mind, ferry companies are deliberately keeping passenger numbers below capacity and offering upmarket shopping, wine bars, dance areas and casinos as entertainment.

Another school of thought hopes to attract customers by offering a much speedier, if less comfortable, service. Regie voor Maritiem Transport (RTM) has ordered a superferry which will begin operating in July next year, but is very interested in the new wave-piercing catamaran that has been developed and is serving the Portsmouth-Cherbourg route.

These catamarans are fast, cutting the 5-hour journey down to 2½ hours. However, the first to start operating – the Seacat, owned by Hoverspeed – has had teething problems and the ferry companies are awaiting developments with some reserve.

Brittany Ferries and Sealink doubt that the catamaran will replace the ferry. Brittany has one superferry, La Bretagne, and has ordered another two for 1992.

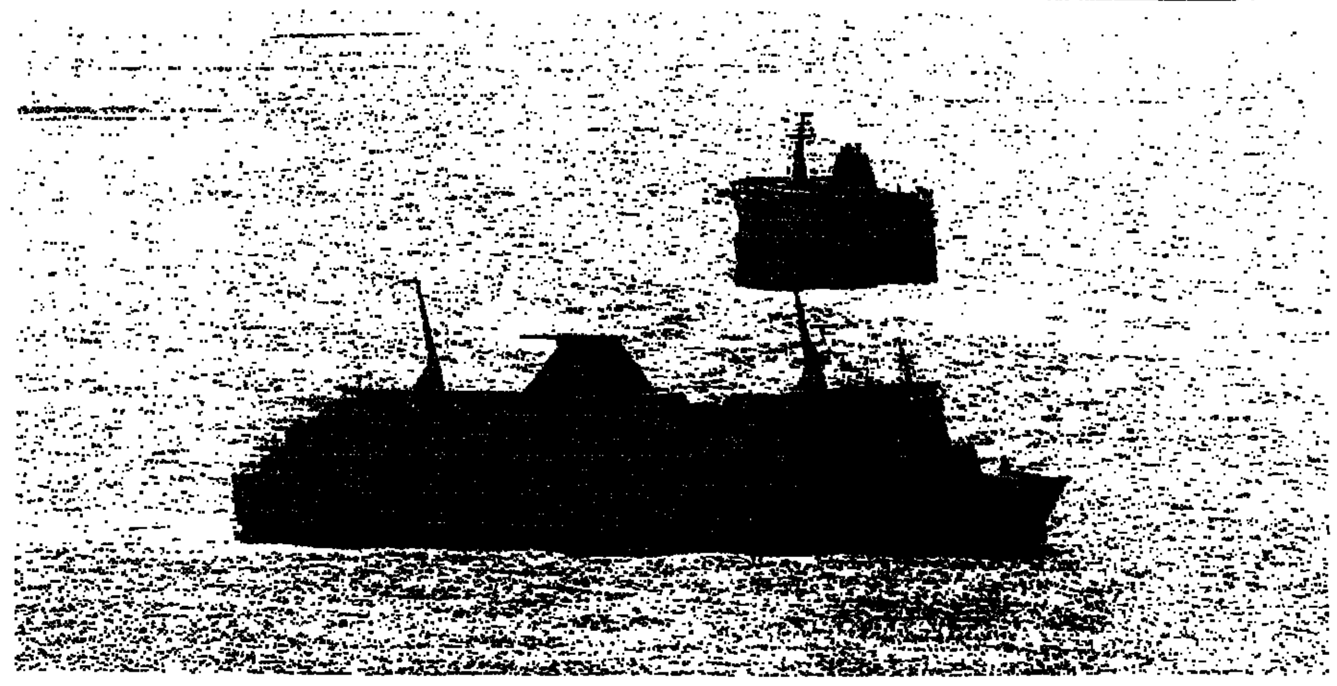
It believes the way ahead is to provide comfort, space and entertainment. Sealink agrees with this. It compares its spacious shopping complexes where people can move easily to the trolley service, found on the catamaran.

No decision has been made as to when or how duty free shopping will go.

It could take another five years to do away with present fiscal frontiers and establish a harmonious European tax system.

However ferry companies try and replace lost duty free revenue, they can never achieve the profits from on duty free sales. This is the view of Mr David Asprey of the General Council of Shipping and member of the board of the International Duty Free Confederation. At best, he says, they can only recover some of their lost profits.

Cross-Channel sailing will change radically this decade. No more the sight of people staggering along the gangways laden with crateloads of beer. Instead, the ferry could become a waterborne high street with luxury boutiques catering for those in expensive holiday mood.



Sealink ferry at Dover: the company is looking at the possibility of niche retailing - upmarket department stores perhaps

ALCOHOL

Distillers fear annual losses of up to £40m

THE ALCOHOL industry, a long-time beneficiary of duty free sales, is not going to watch the duty free business disappear without a fight.

The reason is clear. Duty free sales represent a significant market for the industry's products and, unlike tobacco, there is no questioning its importance.

What is at risk is at least 2-3m cases of whisky, and half a million cases of gin sold at airports, on aircraft and on ferries every year.

The Scotch whisky industry, which alone accounts for 30 per cent of all European Community duty free wines and spirits sales, has predicted that it would lose about £40m per annum, the equivalent of its eighth largest export market.

Generally, the alcohol industry does not oppose the creation of a single market, which it believes can operate alongside continuing duty free sales.

Most intra-EC duty free sales were made through shops at airports

"As an industry we are supportive of the concept of a single market," says Mr Chris Scott-Wilson, senior legal adviser for Guinness and chairman of the International Duty Free Confederation.

"Were we to think that duty free cut across that then we would look at it again. But we don't think the two are incompatible. We are faced with a situation in which there is a potential loss to us and to the UK which is completely unnecessary."

That loss is likely to hit the whisky industry particularly hard. The EC is whisky's largest market, accounting for 45 per cent of its total world wide sales.

The Scotch Whisky Association argues that each member state taxes whisky differently but that virtually all countries tax it much more heavily than competing drinks such as wine and beer, the prime motive being protection of their domestic industries.

It fears that the EC's tax harmonisation proposals would result in spirits being taxed eight times as heavily as wine and four times as heavily as beer when compared on the basis of alcohol content. This, along with the abolition of duty free would deal a heavy blow to the industry.

Whisky manufacturers can be broken down into two groups: large producers integrated in a conglomerate of multinational activities, and small producers concentrating on a few products.

For large producers sales via duty free outlets are not as important. The smaller producers are more dependent, relying on the sale of upper grade whiskies (mostly malts) for which duty free sales tend to be more important.

Mr Scott-Wilson, envisages two possible consequences to the abolition of duty free. The first is that some products may still be sold duty paid at airports, but this he argues is likely to be relatively small.

"Some of the premium brands may still have presence," he says. "Five per cent of that market may be retained, but that is very much a guess."

The second possible outcome would be for people to continue to make similar purchases in the domestic market, duty paid.

However, Mr Richard Owen, director of commercial strategy at United Distillers, points out that research into the duty free market suggests that the majority of items bought duty free are not part of the consumers' ordinary shopping basket – they are bought as one-off presents, either for others or for the purchaser. This, he says, means that replacement in the domestic market is unlikely to make up for losses in duty free sales.

Mr Scott-Wilson is equally pessimistic: "The reality is that by the time people have payed some money for their travel, they are not going to have that much more to make expensive, duty paid purchases," he says.

"When they get back into the domestic market they are likely to revert to their normal purchasing patterns, so it can be argued that the replacement in the domestic market is going to be incomplete."

A survey by the Netherlands Economic Institute on the impact of abolishing duty free said that part of the loss will be recovered on the domestic market since most spirits will continue to be bought by their consumers at local outlets. But it also warns that people will no longer buy the high quality brands as these are considered too expensive in the local shop.

"The producers of deluxe products, especially smaller companies that specialise in malt whiskies will be hardest hit," says Mr Owen.

For the cognac industry, concentrated in the French cognac region, sales at duty free outlets are important. The survey found that in 1988, 14 per cent of total world sales were at duty free outlets. Sales to duty free outlets within the EC took a share of about 54 per cent.

Generally, the alcohol industry does not oppose the single market

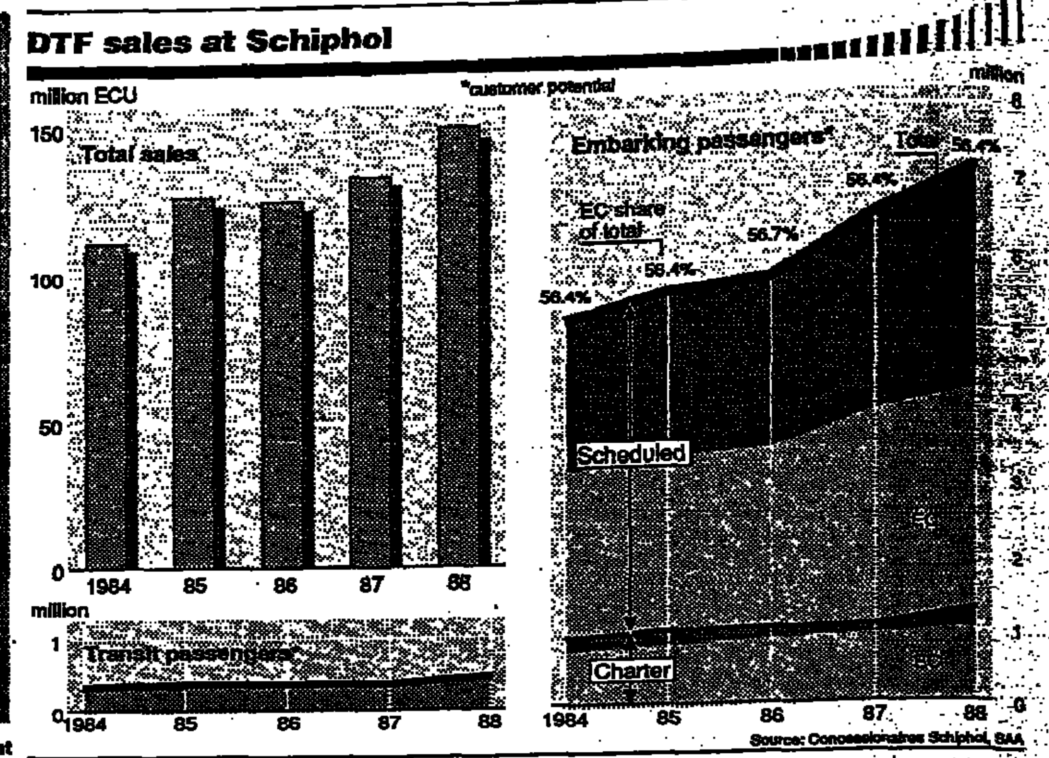
According to the survey, most of the intra-EC duty free sales were made through shops at airports, although in the Scandinavian countries most of the sales appeared to be made through shops on the ferry boats.

The survey predicts a loss of up to a third of world total duty free sales, should duty free be abolished. People will continue to buy cognac from local shops which could mitigate the reduction by some 50 to 75 per cent.

"It is expected that people will trade down on quality and purchase less expensive cognacs. Therefore, for high quality cognacs the recovery rate is likely to be much lower. This means that the effect for high grade cognacs may be worse, although EC-sales of these cognacs are relatively less important," says the survey.

Emma Tucker

Schipol airport claims to have one of the largest assortment of duty free goods on the Continent



PROFILE: SCHIPHOL

A strategy for all seasons

AMSTERDAM'S Schiphol airport and shopping centre, as the first duty free airport on the continent, prides itself on being in the forefront of retail developments. Thus, while it is concerned at the effect of abolishing duty free sales after 1992, it is preparing to maintain its strong retail presence among the airports of Europe.

A new extension, due to open in 1992, is being built for non-EC traffic and the existing shopping areas, remodeled only in 1988, are likely to be converted into a tax paid zone for intra-European travellers.

The Schiphol strategy is based on the fact that even with the potential loss of duty free sales, it expects to attract an increasing share of the projected growth in air traffic in the 1990s.

Schiphol is the fifth largest airport in Europe in terms of passengers, with almost 15.7m air travellers passing through the airport last year. In the first six months of 1990, passenger numbers rose by 5.2 per cent to reach 7.4m. Scheduled passenger numbers rose by 6.4 per cent, while domestic travellers increased in number by 13.7 per cent.

In terms of retail sales, however, Schiphol has the second largest turnover with the equivalent of more than 1m guilders spent there every day. Travellers spend more than 50 guilders each in the duty free shops, above the average for European airports.

Schiphol's shopping facilities were opened in 1957, initially just to enable passengers to buy souvenirs, but with the addition of liquor sales soon after. In the early years, goods could only be sold to non-Dutch residents with intercontinental destinations: European travellers were allowed to buy later.

In 1967, when a new terminal was opened, the shopping centre was substantially enlarged. More retail space was added in 1975.

The airport shopping centre has some 40 shops spread over a floor area of 2,200 sq metres. It claims to have one of the largest assortment of duty free goods on the Continent as well as charging among the lowest prices on average of all European duty free shopping centres.

A recent survey by Which? magazine, published by the Consumers' Association, suggested that consumers could "find bargains for spirits and perfumes".

Schiphol says that its aim is to maintain prices between 20 and 25 per cent below those in Dutch retail stores. It regularly compares prices with those of other airports' duty free outlets.

It operates a policy of giving the concession-holders exclusive rights to sell certain types of goods to ensure as wide a range as possible is stocked. Thus, for example, a clothing accessories store is not allowed to sell perfume, and vice versa.

"The active assortment and pricing policy means that the shops do not have to compete with each other, while the traveller does not need to stroll round looking for the lowest price," says a Schiphol spokesman.

Another advantage of Schiphol is that any Western currency can be used to buy goods in the shopping centre. Apart from goods found in most duty free shops, Schiphol has what it claims is the world's oldest and largest dealer for tax free cars.

Not all travellers are able to shop without restrictions: travellers on flights within the Benelux region cannot buy duty free, while Dutch residents have to pay VAT.

Duty free sales through Schiphol were some Ecu150m in 1988, according to the Netherlands Economic Institute. It estimates that if duty free sales were lost to intra-EC travellers, then the shopping centre's profits would fall by more than a third and up to 200 jobs put at risk.

"Like many other companies, we approve of the move towards European unity and think that opening European borders can have a positive effect on some sectors of European transportation," says an airport spokesman.

"Schiphol, however, considers that duty free purchases at airports cannot be divorced from fiscal harmonisation. So duty free sales should not be abolished until there is true harmony of VAT rates and duty throughout the EC."

David Churchill

Airports International

Shannon opened the world's first duty free shop in 1947, a few years before jet airliners entered service

PROFILE: SHANNON AIRPORT

Better placed than others

THE Boeing 707 parked on a remote taxiway at Shannon Airport looks forlorn. The four jet engines have been removed for spares and the old aircraft is unlikely to fly again.

Like the 707, with its Nigerian Airways livery peeling in Irish rain, the airport is in danger of having some vital components removed – its duty free concessions.

Shannon opened the world's first duty free shop in 1947, a few years before jet airliners entered service. It catered for travellers who disembarked in the Republic while their aircraft refuelled before and after Atlantic crossings.

The airport, however, is likely to lose 40 per cent of its duty free customers if the European Community presses ahead with plans to end concessions for passengers travelling between member states.

Mr Jim Kelly, who manages the duty free area, fears a large drop in income if passengers are unable to buy discounted liquor and tobacco. "Our profits will not be as good, especially as passengers from the US going on to Europe will not be able to buy duty free," he says.

Shannon will not be hit as hard as the airports at Dublin and Cork by the EC proposals, according to Aer Rianta, the Irish airports authority.

The County Clare hub has a guaranteed in-flow on non-EC passengers from the US following the Irish government ruling that there should be a compulsory stopover at Shannon. The decision by Aeroflot, the Soviet carrier, to use Shannon as a refuelling stop on its central and south American routes brings in other customers.

Mr Fran Clun, of Aer Rianta in Dublin, says: "The ending of concessions will have less impact on Shannon than Dublin and Cork."

Cork Airport relies on duty free income to break even and airport managers fear the end of airside discount shopping will push it into deficit.

Mr Clun estimates Aer Rianta profits will drop by I£15m (£13.72m) if duty free concessions are ended. "Half our profits would disappear overnight," he says.

Aer Lingus, the Irish state airline, meanwhile, wants to end the anachronism which means New York-Dublin flights have to land in the west of Ireland. Aer Lingus hopes to begin some direct flights between the Irish capital and the US next year.

The loss of the transatlantic stopover would be a further blow to Shannon, which will miss its US customers.

The duty free shop is thick with Irish-American souvenirs such as sweatshirts thick with shamrocks and the slogan "I've got Irish roots". A painting of president Kennedy's arrival in Shannon hangs by the departure gates and the US authorities have opened their first European immigration area in the terminal.

Shannon, however, will be protected from the loss of duty free income by its protected position as an open trading zone, according to an Aer Lingus spokesman.

The move to attract business to south western Ireland has paid off, with about 100 companies moving to the Shannon area employing a workforce of some 5,000 people. A number of overseas companies, including Aeroflot, and US and Japanese businesses have set up bases near the airport.

Distribution companies operating in the area – which will not be effected by the EC proposals – pay only 10 per cent corporate profit tax.

Aer Rianta, meanwhile, has joined forces with other duty-free operators to lobby politicians and officials in Brussels, where it hopes plans to end concessions will be abandoned.

Shannon Airport will not be hit as hard as the airports at Dublin and Cork by the EC proposals

Mr Clun, who remains pessimistic about the chances of reversing the EC plans, says the airports authority is looking east for an alternative source of income to duty free sales.

The company enjoys a special relationship with Moscow born out of Aeroflot's links with Shannon, which strengthened during the Soviet invasion of Afghanistan.

Aeroflot flights banned from the US flew as far as Shannon, where they picked up and set down US passengers. Since then, the airport has become an important Aeroflot base and Aer Rianta has won the contract to repaint the Soviet airline fleet.

The company now hopes to generate new profits with a chain of duty-free shops behind the former Iron Curtain.

In 1988, Aer Rianta entered a joint venture with the Soviet authorities to open the country's first duty free shop at Moscow's Sheremetyevo Airport. The company has also opened shops at Leningrad Airport and in the city centre. The idea, says Mr Clun, was prompted by president Gorbachev's moves to open the economy.

"When perestroika arrived we suggested we could run a duty free shop. Now we have a number of outlets at the arrivals and departures areas of Moscow airport," he says.

Aer Rianta's I£30m annual turnover in the Soviet Union now exceeds its turnover in Ireland. And recently, the Irish airports authority opened the first duty free shop at the Soviet-Finnish border and plans to operate other outlets in Tashkent, Kiev and elsewhere in eastern Europe.

The competition for the new outlets will be fierce and Mr Clun expects rival bids from Lufthansa, the German airline, Pan Am of the US, Alders of the UK and a number of Japanese trading houses.

Aer Rianta, however, claims it has a head start with its existing joint ventures, in which it has a 49 per cent stake. The political stance of the Dublin government has also helped the Soviet deals, according to Mr Clun.

In Ireland, the company plans to minimise the impact of the proposals to end European duty free shopping, which it says will cost 300 jobs at Shannon, Cork and Dublin.

Both Mr Jim Kelly at Shannon and Mr Fran Clun in Dublin want to develop "landside" shopping at airports. The future of Ireland's airports, they say, lies in developing shopping malls for visitors where tax-paid goods will be on sale.

"The market will change after 1992," says Mr Kelly. "The competition will be downtown shops."

Tim Burt

TOBACCO

A crack in the shop window

AIRPORT lounges, in-flight magazines, and duty free shops have for years acted as show cases for the tobacco industry.

International brands can display their cigarettes in a beneficial environment unhampered by the health warnings imposed within member states.

It is the loss of this exposure, rather than a drop in revenue, that would most affect the industry should duty free be abolished in 1992.

"Duty free acts as a shop window for our products," says Mr Keith Spinks, industry affairs manager for Rothmans, Switzerland. "It is a key merchandising area for us where we can have our products well displayed. It is a super marketing environment."

For this reason the tobacco industry sees the duty free market as a significant stage for the market penetration of international brands.

The importance of duty free sales to the total turnover of international tobacco companies is minor. Tobacco duty free sales account for less than 2 per cent of all tobacco sales in the EC in volume terms.

However, tobacco contributes a very significant proportion of the duty free industry's total profits. According to British American Tobacco, tobacco accounts for about one quarter of the total turnover of duty free sales.

The company adds that another factor which contributes to the disproportionate significance of tobacco products in the duty free market is their high contribution to the profits of duty free operations. It is above their proportion of turnover because operators derive a higher margin from them than for many of the other products.

According to BAT, duty free tobacco shoppers do not purchase on an occasional or impulse basis. They do so primarily for personal consumption on a rational basis that takes into account the amount that they save.

A survey by the Netherlands Economic Institute estimates that the abolition of duty free would result in a fall of 60 per cent of duty free sales of tobacco products within the EC at manufacturers prices – about Ecu120m. This would result in a 20 per cent reduction in duty free sales world wide.

However, according to the survey, it is probable that tobacco sales lost in the duty free business will almost entirely be recovered within domestic markets.

Manufacturers will be able to recover 90 to 100 per cent on domestic markets which would mean a maximum loss to the industry of Ecu12m.

BAT agrees: "Should duty free be discontinued, tobacco sales will almost totally transfer from the duty free to the duty paid environment with little or no impact upon overall Community tobacco consumption because smokers will continue to purchase what they require for personal consumption," says Mr Paul Bingham, who works in marketing at BAT.

However, the industry is agreed that as a marketing opportunity duty free is valuable and something which the industry is loath to give up.

"Duty free is the shop window for many high quality European products with considerable uptrading by shoppers," says Mr Bingham. "Should duty free disappear, the challenge to all suppliers is how will they market these products effectively."

He adds that it is wrong to assume that duty free sales will be replaced by duty paid sales in the same outlets at airports, ferries and on aircraft.

"If operators think that shoppers will continue to purchase the same quantity of tobacco products on a duty paid basis then they are living in a charmed world," says Mr Bingham.

"Trading-up", whereby people who smoke a cheaper

The tobacco industry sees the duty free market as a significant stage

generic brand of cigarettes buy a more expensive brand in a duty free shop, could be a significant loss to the industry. Generic brands such as those sold by supermarkets in Britain, cannot be bought duty free.

"The overall volume of sales probably won't change. People smoke a given number of cigarettes per day willy-nilly," says Mr John Webb of Rothmans International.

"However, brand makes may change." Mr Webb also predicts that cigar sales may suffer as a result of duty free abolition.

The top selling cigarette brand for UK duty free sales is Benson and Hedges, followed by Silk Cut, then Marlboro.

In Europe as a whole the biggest selling brand is Marlboro. But will any of these brands really suffer if duty free is abolished?

"Probably not," says Mr Webb. "If you are a Marlboro smoker and you go to France when there is no duty free. Well you will simply buy your Marlboro in France instead.

"Someone who smokes a cheap brand in the UK might at the moment upgrade and buy Rothman's when they travel. If duty free is abolished they will simply buy a cheap foreign brand when they go abroad," he says.

"So in overall volume we won't suffer but in terms of trading up we might suffer."

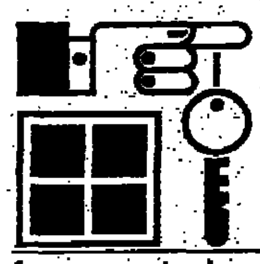
Emma Tucker

FINANCIAL TIMES SURVEY

ITALIAN CONSTRUCTION INDUSTRY

SECTION IV

Monday October 8 1990



Changing economic and political forces would seem to point to a significant rationalisation of a fragmented national construction industry dominated by small, family-owned companies. However, as **Andrew Taylor** reports, large scale reorganisation is unlikely

Industry at a crossroads

THE ITALIAN construction industry has entered the 1990s at a crossroads in its development.

The strong growth in demand for buildings and public services experienced at the end of the 1980s is likely to give way to a more difficult period for contractors and building material producers alike, as public and private investment comes under increased pressure.

How companies respond to these pressures, and to increased international competition, will determine the shape of the industry over the next decade.

Italy's construction output, in constant 1980 prices, rose from L45,717bn in 1987 to L47,958bn last year – an increase of almost 5 per cent, according to Associazione Nazionale Costruttori Edili (ANCE), the Italian construction industry trade federation. Last year output rose by 3.6 per cent compared with a 3.2 per cent rise in Italy's gross domestic product.

Growth in construction, however, is expected to slow over the next two years and may even decline in some parts of the building industry.

Changing economic and political forces point to a significant rationalisation of a more than usually fragmented national construction industry dominated by a large number of small family owned companies.

These small business, however, will not relinquish their independence easily.

The biggest single obstacle to growth in an industry heavily committed to public works is the Italian Government's urgent need to restrain the mounting public sector debt.

This amounts to one million billion lira, equivalent to Italy's GDP. The annual budget deficit is about 10.5 per cent to 11 per cent of GDP.

The Government has initiated a programme to stabilise the outstanding debt from 1991 through a programme of higher taxes, sales of public assets and reduced expenditure.

The fear is that it will be unable to make sufficient inroads by cutting current expenditure and that major capital programmes will start to suffer from increased delays and postponements.

The Government, in a bid to keep a tighter grip on public expenditure and reduce the inefficiency, graft and fraud which has restricted investment in southern Italy, is also attempting to bring control of expenditure back to the centre and away from local authorities.

There are more than 14,000 local and state organisations with the authority to make public investment in construction, according to ANCE.

The system is fragmented and often highly inefficient. Orders are often placed on the basis of local contacts rather than on price or ability to complete works on time and to budget.

People in parts of Naples are still living in temporary accommodation ten years after the earthquake which devasted the area.

The intervening period has been characterised by great arguments between local authorities over how the public money should be spent and, it is alleged, by a phenomenal leakage of funds into organised crime.

Smaller Italian construction companies could suffer if the Government succeeds in its plan to bring greater central control over public spending particularly.

The Government, however, will find it very difficult to break down the power of the politically strong regional and local authorities.

Private investment, like public spending, has risen during the last few years. Private house and flat sales and prices have increased sharply as prosperity has risen.

Office and industrial investment is also high, reflecting both the revival of the domestic economy and increased inward investment by overseas companies in Italy.

There is concern that private investment in residential and commercial property could weaken as fears of world recession have mounted and international interest rates have risen steeply over the past 12 months.

The crisis in the Gulf created by Iraq's invasion of Kuwait adds to the uncertainty about which direction the market will take.

The dismantling of trade barriers between European Community countries in 1992 should, in theory, increase competition in domestic construction markets while simultaneously pressure for rationalisation.

One of the most striking features of Italian contractors is their relatively small size in terms of turnover, numbers of employees and capital employed compared with some of the large, diversified construction companies found in other European countries.

Ecosfera, an independent research organisation for the construction industry, estimates that there are more than a quarter of a million Italian contractors, of which more than 40,000 can bid for public sector contracts.

Cogefarimpresit, controlled by Fiat, the largest private construction group in Italy, is considerably smaller than some of the large diversified British and French contractors it competes against in international markets.

One of the reasons given for the merger of Cogefar with Fiatimpresit, at the end of last year, was the need to attain a larger critical mass required for it to compete in the new European market.

There are several reasons, however, why the merger is unlikely to be the precursor of a large scale rationalisation within the construction industry.

The vast majority of contractors, including some of the sector's largest companies, are family owned or controlled.

These families will guard their independence jealously and are unlikely to sell or purchase stakes in rival companies.

For the same reasons, this will make it difficult for other contractors in other European countries to gain a foothold in the Italian market by acquiring strategic stakes in local contractors.

French and German construction companies, in particular, are accustomed to developing complex cross holdings to cement co-operation agreements.

Mr Richard Hopewell, a construction analyst with Swiss Bank, says: "Most Italian family company directors see total ownership as the only way to guarantee continued control since the sale of a minority stake to raise extra capital could easily create problems for later generations."

Personal contacts are essential at regional and local levels. Nepotism is rife.

Mr Giovanni Lalli, managing director of Brenta, the UK construction arm of the Milan based construction group of the same name, says: "The Italian way of building a relationship in business is primarily based on personal trust and reputation. In the UK, consideration of a company is sometimes limited to its balance sheet and this may give a misleading impression."

Overseas markets have also become more difficult for Italian contractors.

Their share of international orders has declined as demand for large scale civil engineering projects in developing countries has diminished.

It is in these markets that Italian contractors have been strongest.

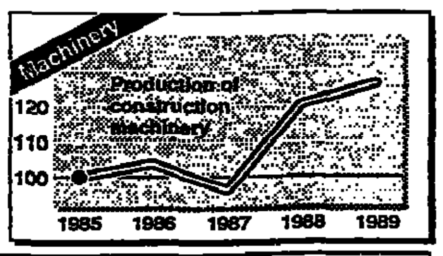
All of which points to harder times ahead for the construction industry.

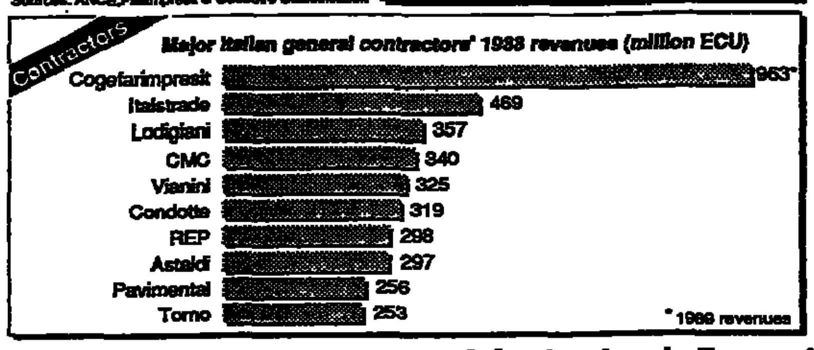
Demand for improved transport, cleaner water and better medical services in Italy, however, remains high and it will be difficult for the Government to cut these and other infrastructure programmes.

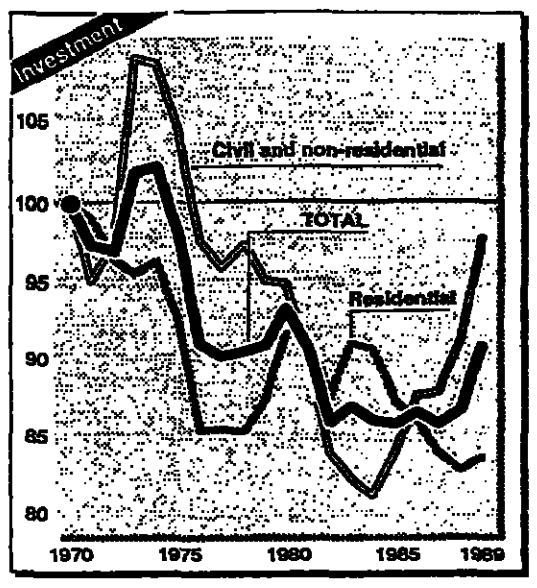
It will also be difficult for the Government to wrest financial control away from powerful local authorities.

There is increased pressure for rationalisation within the construction industry, but change is like to be evolutionary rather than revolutionary.

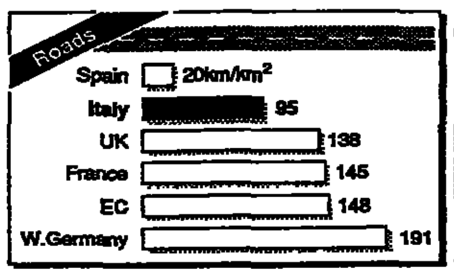
Sources: ANCE, Fiatimpresit & Costruire Classification

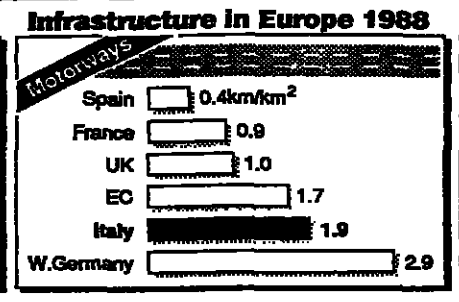


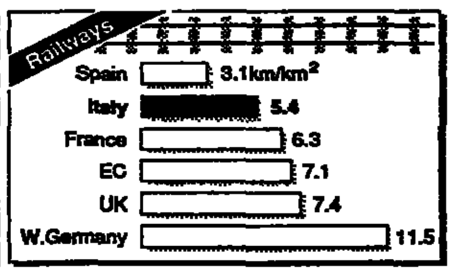




Infrastructure in Europe 1988







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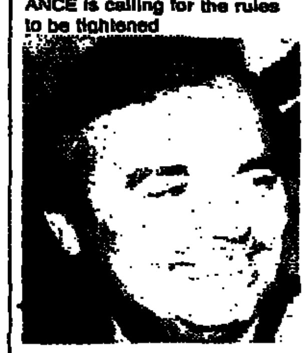


Riccardo Pisa, president of the trade federation ANCE

Editorial Production: *Andrew Slade*

Public works may fall victim to cuts, writes **Andrew Taylor**

Uncertainty in vital sector

THE PUBLIC sector is crucial to Italy's construction industry, accounting for between one-quarter and one-third of output.

Excluding housing, public works will this year account for nearly L30,000 bn out of a total construction output of more than L100,000 bn.

However, despite ambitious spending plans for transport, health and the environment, the outlook for public construction in the 1990s is uncertain.

Accurate assessments of total output and the state's share are difficult to glean in a highly fragmented industry comprising a handful of large groups and thousands of small to medium-sized, mostly private, family-owned businesses.

Financial management of public sector budgets is equally fragmented. There are more than 14,000 local and state organisations with the authority to make public investment in construction, says the trade federation, ANCE.

The system of channeling public expenditure through politically powerful local and regional authorities, which often lack the internal management to cope with large programmes, can be highly inefficient.

Spending plans by government, nationalised industries, state and local authorities are seldom met.

"The investment programmes approved by parliament are not real spending targets. Nobody expects them to be met. This year public works are planned to cost about L50,000 bn. Actual expenditure will be about two-thirds of that", says one of Italy's largest civil engineering companies.

In a bid to tighten its grip on public expenditure and reduce the inefficiency, graft and fraud which has stymied plans to increase investment in the south, the government is trying to wrest control back from local authorities.

This could cause problems for smaller construction companies, whose strength is often based on good local political contacts.

Contractors are also worried about government plans to stem the mounting public sector deficit, which at one million billion lira is broadly equivalent to Italy's gross domestic product.

The government plans to stabilise the outstanding debt from 1991 through higher taxes, sales of public assets and reduced expenditure.

The aim is to reduce current rather than capital expenditure, although experience elsewhere suggests that this is easier said than done. In practice, it is simpler to postpone or delay capital programmes than cut jobs and wages.

Contractors fear that having risen steadily during 1988 and 1989, public expenditure will flatten over the next few years and could even dip slightly.

Ecosfera, an independent research organisation, is less pessimistic. It says the need for investment in transport, the environment and medical facilities is such that it will be difficult to cut programmes.

Investment in railways, for example, was badly neglected during the 1960s and 1970s, when transport spending was heavily weighted towards roads. Most contractors expect the railway programme to go ahead.

The government, according to Ecosfera, plans to spend L92,000bn over the next few years on modernising and improving the rail network. It estimates that about two-thirds of this will be spent on public construction works, including high speed rail links.

Spending on railway construction, excluding rolling stock and signalling, is expected to rise this year from L4,200bn to L7000bn, says Ecosfera, which expects a similar amount to be spent next year.

Vianini Lavori, one of Italy's five largest contractors, expects to be a major beneficiary if the programme goes ahead intact; it maintains a close relationship with its sister company, Vianini Industria, which manufactures railway sleepers and concrete pipes.

Investment in roads, for which there is growing pressure, is also important to public sector contractors. Construction of a new motorway between Civitavecchia and Livorno recently got under way – the first new motorway to be started in Italy for some five years, according to Ecosfera.

Spending by ANAS, the national roads authority, is expected to rise by between 9 and 10 per cent this year, Ecosfera says.

Mr Giovanni Prandini, minister of public works, recently called for a L12,000bn programme to upgrade and expand the motorway network.

Contracts are expected to be put out to tender shortly for for the Austostrada del Sole motorway between Florence and Bologna, which has been damaged by heavy traffic, says Ecosfera.

Spending on hospitals and other health facilities is set to rise from L1000 bn to L3,500bn over the next 12 months, according to Ecosfera forecasts, while spending on the environment is also predicted to rise sharply.

However, Ecosfera expects funding for local authority programmes to fall sharply as the government pursues its goal of greater central control over spending.

ITALIAN CONSTRUCTION BY TYPE (BILLION ECU, CONSTANT 1989 PRICES)

	1985	1986	1987	1988	1989	1990*	1991*
New residential	21.51	20.52	19.53	19.90	20.78	n/a	n/a
percentage change	-6.84	-4.6	-4.85	1.91	4.42	3.1	1.0
New private non-residential	8.91	9.10	9.30	9.79	10.65	n/a	n/a
percentage change	0.54	2.14	2.26	5.28	8.74	3.9	3.7
New public non-residential	2.76	2.90	2.93	2.98	3.10	n/a	n/a
percentage change	1.77	5.23	0.97	1.67	3.98	0.8	1.5
Civil engineering	10.45	10.79	10.85	10.92	11.29	n/a	n/a
percentage change	-0.22	3.21	0.53	0.71	3.36	3.0	2.3
Renovation and modernisation	28.88	29.67	29.90	30.00	30.24	n/a	n/a
percentage change	4.19	2.73	0.77	0.34	0.80	-0.2	0.0
Total construction	72.45	73.22	72.45	73.35	76.00	n/a	n/a
percentage change	-0.47	1.07	-1.06	1.24	3.61	2.2	1.5

*forecast. Promotional and notarial costs included, routine maintenance excluded. Source: ECOSFERA

John Simkins on an ambitious project in Rome

Poised for take-off

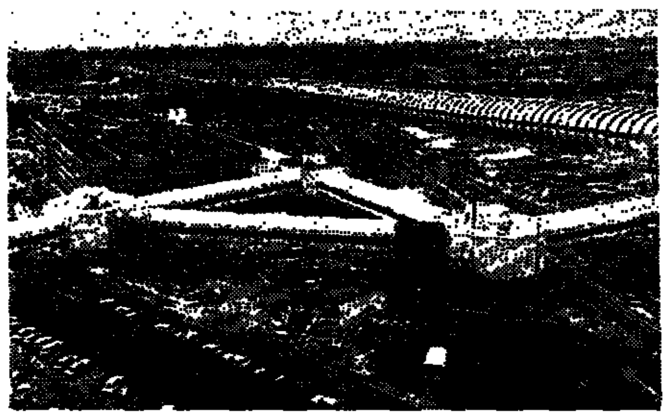
THE EXPANSION of Rome's Leonardo da Vinci airport at Fiumicino, which expects to handle 18m passengers this year but which has a terminal only half the required size, is one of Italy's most pressing public works projects.

In time for the World Cup, the airport built a waiting-room complex, multi-storey car park and mechanised pedestrian skywalks, and enlarged the domestic and international departure areas. This is only the start of an ambitious plan, costing approximately L5,000bn (£2.4bn), to upgrade the airport by the year 2005 and cater for an expected 30m passengers.

"It is the first serious and organised plan to expand the airport since Fiumicino was built in 1961", says Mr Maurizio Foschi, the airport planning and development director of Aeroporti di Roma, the fourth largest in Europe which also includes the part-military, part-civil Ciampino airport to the east of the city.

Passenger traffic at Fiumicino, to the west of Rome near the Mediterranean coast, is increasing at 8 per cent per year, compared with the 6 per cent forecast on which the master plan is based.

The plan calls for two new departure and arrival piers (work has already started on one) and two satellites, as well as a new three-tier terminal combining the domestic and international terminals, which are currently separated. Road access and parking will also be improved.



Pedestrian skywalks at Rome's Fiumicino airport

The government has allocated L1,300bn for expansion and the airport, enjoying its fourth consecutive profitable year and making a gross profit of 8 per cent on an annual turnover of around £240m, expects to spend L500bn of its own resources over the next six or seven years.

So far all contracts have been put out to tender and, given the enormous costs, there will be scope for private sector investment, particularly in areas such as cargo handling. There have also been talks with the private sector about building an hotel.

However, Ciampino, with 220 hectares and one runway, can grow no more: noise pollution problems prevent further development.

Mr Foschi and his colleagues are therefore looking at a further plan for Fiumicino for the year 2030, by which time passengers are expected to total 60m per year. This would involve two more runways, increasing the size of the complex from its present 1,500 hectares to 4,500 hectares.

A good start has been made – Italy's airports were the only entity to complete their World Cup plans on schedule – but an important opportunity to provide good rail links to the heart of Rome has been missed.

After much rivalry, the railways body, rather than the metro, won the contract to build and manage the link between Fiumicino and the nearest underground station of Ostiense, which is at the end of one of Rome's two inadequate metro lines. Passengers must change at Ostiense – they cannot go directly from the airport to the city centre. Information is poor (Ostiense station is also confusingly described as Piramide) and taxi drivers – who have had a near-monopoly on ferrying passengers to the city – are boycotting Ostiense. The new rail link has also been poorly advertised and a large car park at Ostiense remains practically empty.

Mr Foschi is well aware of the rail link's defects. "But it has to work", he says. "The rail link will be important because of the programme of work we have in mind."

David Lane analyses the tendering process

Tighter rules urged

WITH 12,000 public bodies awarding construction contracts, keeping up with the play is a sizeable task for companies.

The Ministry of Public Works says that calls for tenders must be published either in Italy's official gazette or in those of the regions. Notification is required in the official gazette of the European Community for works exceeding 5mn Ecu. Generally the same announcements are made in three major Italian daily newspapers, these appearing before publication in the official gazettes.

Many contractors use information agencies, which provide computer-based daily updates of calls for tender, to receive details only of projects in which they might be interested.

Requests for pre-selection must be made within 21 days of publication of the call for tender in the official gazette.

The ministry notes that pre-selection is carried out from the firms that ask to participate and which satisfy technical and financial requirements. However, the constructors' association, ANCE, says that too many contractors enter pre-selection.

"For small projects as many as 400 firms will reply. This creates an enormous workload", says one ANCE official.

Revision of the ministry's roll of national constructors' ("Albo Nazionale dei Costruttori") should reduce the number of firms qualified to respond. Inscription in one or more of 20 different categories on the roll, with indication of the maximum value of contract that may be undertaken, is a prerequisite for firms replying to calls for tender.

New rules introduced in May 1989, were followed in April by a ministerial circular providing clarification and amplification. "The aim is that a firm's inscription will again have the precise meaning of ascertained and secure financial, technical and organisational reliability", says ANCE.

The new criteria include payroll, operational structure and turnover. ANCE hopes that stringent application of tighter inscription and qualification rules will eliminate the large number of "shell" companies that have obtained inscription in the past, subsequently winning contracts and operating solely as intermediaries, with subcontractors doing all the work.

Cleaning out the "albo" is unlikely to be completed quickly. ANCE notes, however, that positive results have been obtained since the new regulations came into force.

"Previously all firms that responded to calls for tender, satisfying documentation requirements and with the appropriate listing on the 'albo', had to be allowed to bid. If excluded, 'shell' companies could, and did, appeal to the courts and the whole tendering process was invalidated and had to be repeated", says an ANCE executive.

He adds that the heavy overcrowding characteristic of tendering for public works contracts led to considerable delays. Weeding the roll and further reducing the number of firms that qualify by tighter definition of participation should ease the problem.

Success in pre-selection has been a matter of form rather than substance. Presentation of documentation varies from one public agency to another, but generally includes certificates of inscription on the roll, details of work undertaken in the preceding five years, financial statements for three years and bank references.

Adjudication is based either on lowest offer or on a complex evaluation that takes account not only of price but also of the time to complete the works and their technical content. Notwithstanding the EC requirement that lowest cost will be the basis of adjudication after 1992, the current preference is for a method that not only requires firms to invest resources in formulating bids that are not based solely on price, but also involves subjective judgement.

This, coupled to pre-selection, explains why the ministry cites litigiousness as a reason for delays. Others are lack of finance and difficulties in co-ordinating the various authorities that have to give opinions or approve projects.

In order to short-circuit the bureaucracy, an accelerated procedure known as a "conferenza dei servizi", in which the views of all relevant authorities are gathered in one place and at one time, is being tried.

Delays in payment are not, however, a problem for contractors. This year the Treasury set 10 per cent as the maximum advance payment, due on effective commencement of works. Delays in stage payments, based on inspectors' reports, incurred interest charges of 14.5 per cent in the year to 31 August.

PROFILE: ITALSTAT

Strength in depth

ITALSTAT, the world's largest builder and operator of motorway toll roads, is part of the state-owned IRI holding group. It has a major influence on the way in which contracts are awarded and conducted, acting as intermediary between state and nationalised authorities and private sector contractors.

Italstat's engineering, design and management capacity enables it to process projects from conception through to detailed design, until schemes are ready to go out to private tender. This, Italstat claims, allows small contractors to tender for a share of large projects from which they would otherwise be excluded.

Eighty per cent of the actual construction work is put out to tender to the private sector. The remainder is carried out by Italstat subsidiaries.

This arrangement is not popular with some large contractors, however, who resent the preferential treatment which they say state authorities give to Italstat. Fiat subsidiary Cogefar-Impresit, the biggest private contractor, says it would prefer to bid at an earlier stage, allowing it to offer clients a complete package.

Italstat's most important role is as an operator of toll roads (Italy has the most highly-developed network in Europe) and motorways builder. It operates 60 per cent of Italy's 6,000 km of toll roads under government concessions and claims to be the world's largest operator of motorway toll roads.

The division which houses the numerous Autostrade motorway operating subsidiaries achieved a turnover of L2,200bn last year, accounting for 38 per cent of Italstat's L5,556bn turnover. The general construction division, including motorway building, had a turnover of L1,400bn last year.

Italstat also claims to be Italy's largest civil engineer. As with roads, about 80 per cent of the work is put out to tender to the private sector.

In international markets, Italstat has been at the forefront of Italy's attempts to break into eastern European markets. It is working on feasibility studies for the restoration of two Soviet cities and for a motorway between the Finnish border and Moscow. Italstat also has contracts worth L5,000bn for the repair and maintenance of motorways and airports in the US, while a subsidiary is part of a consortium of UK companies bidding to build Britain's first privately-financed motorway toll road.

The group is restructuring operations by reducing and merging some of its operating subsidiaries and floating off minority stakes in some businesses. The concern currently operates from 140 separate subsidiaries, with a high degree of overlap between some of them.

Andrew Taylor

Foreign orders have declined, writes **Andrew Taylor**

Overseas contracts suffer

ITALIAN contractors, among the most aggressive competitors for overseas orders, suffered during the 1980s as markets shrunk and emerging countries developed their own contracting businesses.

Although the value of overseas orders leapt by 70 per cent to L3,284bn last year, that is still well below the previous peaks of almost L5,000bn in 1981 and L4,500bn in 1985. The Gulf crisis can only make matters worse. Many Middle East contracts will have been cancelled or postponed.

Italian contractors, heavily orientated towards public works at home, developed skilled teams accustomed to working on large scale water, energy, transport, industrial and environmental projects required by developing nations and oil rich states during the late 1970s and early 1980s.

During this period, the Italian government also stepped up its international aid programme, which was often tied to the award of contracts to Italian companies.

Italy's share of international contracts, however, has fallen in recent years. A recent survey of the overseas activities of the world's 250 largest construction companies shows that France overtook Italy as Europe's biggest international contractor last year. Italian companies won about 9.6 per cent of cross-border contracts awarded last year, according to the international construction magazine, ENR.

There are several reasons for the relative decline of Italian contractors in foreign markets:

- developing nations – Italy's biggest markets – can no longer afford to invest in large scale infrastructure projects;
- aid budgets of international organisations such as the World Bank have moved away from investment in new projects to trying to stem the Third World debt crisis;
- there is competition from emerging construction nations such as Korea, Taiwan and Japan, which offer finance as well as construction skills;
- richer developing nations which invested in massive infrastructure projects during the 1970s have been looking for secondary investment in smaller private projects.

The large Italian companies which work overseas are less skilled in these areas;

- Italian companies have less experience in promoting privately financed infrastructure projects, an increasingly important alternative to state expenditure in both developing and industrialised countries. Italian companies' expertise has largely been restricted to public sector works at home and state- and internationally-aided projects overseas.

The decline in overseas markets has coincided with an upturn during the past two years in the domestic construction market, enabling international contractors to bring some of their expatriate employees home.

Vianini Lavori, one of Italy's largest contractors, says it has cut overseas contracting to less than 10 per cent of turnover. International orders accounted for half of 1985 turnover.

According to the trade federation ANCE, the value of international contracts awarded to Italian contractors slumped to just under L2000bn in 1988 – less than half the 1984 level.

The subsequent jump in orders last year reflected a general recovery in world construction investment led by industrial nations. Europe and the Far East were the fastest growing markets in 1988 and 1989, according to ENR.

The value of Italian construction orders was also boosted by a single large contract for a hydro-electric scheme in M'Jara, Morocco. This L838bn contract accounted for 27 per cent of overseas contracts won by Italian companies last year.

Italian contractors remain heavily dependent on Third World markets. African countries accounted for 58 per cent of contracts last year, compared with 45 per cent in 1988, according to ANCE.

The share of orders placed by industrialised countries with Italian contractors fell from 31 per cent to 23 per cent last year. Europe's share, however, increased from 4 per cent to 15 per cent.

The average size of contract was only slightly more than L23bn. Small contracts worth up to L50bn accounted for 90 per cent of work won abroad by Italian companies, says ANCE.

The move towards smaller, more general building projects is also reflected in the proportion of contracts designated as building and special works, which increased from 22 per cent in 1985 to almost 40 per cent last year.

Italian companies, however, have been quick to try to break into eastern European markets where their expertise in civil engineering and experience of working alongside state organisations assist them.

Italstat, the construction and infrastructure development arm of IRI, the Italian state holding company, is carrying out feasibility studies for a motorway from the Finnish border to Moscow. It is also working on similar studies for major refurbishment and modernisation of at least two Soviet cities. Other Italian companies have projects in Yugoslavia and Hungary.

European companies, on the other hand, will find it difficult to break into the Italian market, whose fragmented nature and heavy reliance on personal contact makes it difficult for would-be purchasers.

Many companies are privately owned family businesses, jealously guarding control of the management of their companies and – unlike German and French companies – reluctant to buy and sell stakes in their operations.

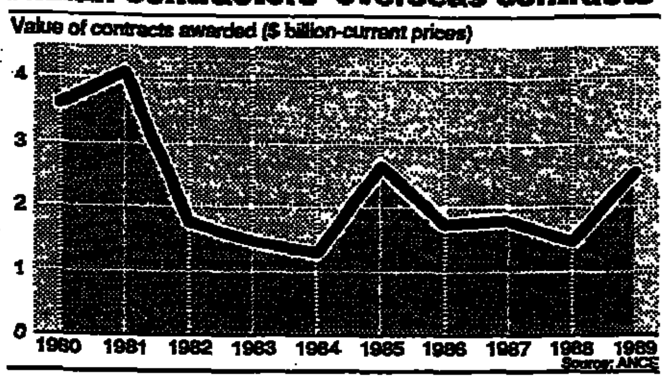
For the same reason, Italian companies are unlikely to buy into foreign-owned companies unless it gives them control of management. "Otherwise it is only an investment like any other. Why not invest in Fiat for the same reason?" says one privately-owned Italian contractor.

However, this has not prevented some overseas contractors from doing work in Italy. Philipp Holzmann of Germany is building a dam in Sicily and has also worked in Turin and Rome. Balfour Beatty of the UK also recently announced a joint venture with an Italian company.

Most Italian contractors say that the coming single European market will make little difference to ordering patterns in Italy; most contracts will continue to go to Italian companies.

Italian contractors' overseas contracts

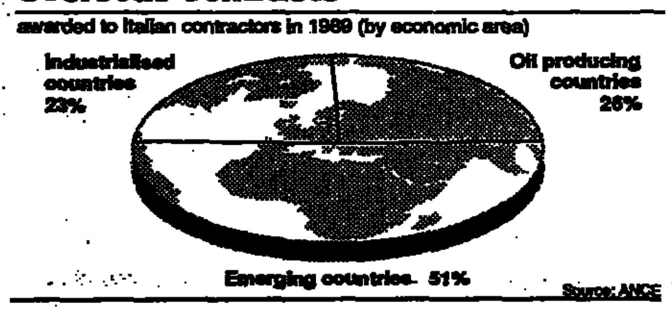
Value of contracts awarded ($ billion-current prices)



Source: ANCE

Overseas contracts

awarded to Italian contractors in 1989 (by economic area)



Source: ANCE

PROFILE: FIATIMPRESIT

Planning for Europe's single market

Antonio Mosconi, managing director of Fiatimpresit

FIAT, which includes in its armoury the largest private sector construction contractor in Italy, is directing much of its efforts to planning for the single European market.

"We believe in European unification and this is the basis of all our strategy", says Mr Antonio Mosconi, managing director of Fiatimpresit, which is wholly owned by Fiat and is the company's civil engineering arm.

In turn, Milan-based Fiatimpresit has 70 per cent of the quoted company Cogefarimpresit, formed last year by acquiring Cogefar and merging it with Fiat's own construction interests.

Cogefarimpresit topped the Italian private sector construction league last year with turnover of L1,546bn (£736m), but is dwarfed by other national leaders such as Bouygues of France, Tarmac of the UK and Germany's Philipp Holzmann.

'European unification is the basis of all our strategy'

Fiat's strategy for construction and engineering has been moulded against a background of less favourable market conditions in developing countries, brought about partly by debt.

Cogefarimpresit has thus repositioned itself so that 80 per cent of consolidated turnover comes from within Europe, mainly Italy. Excluding Italy, it has nine subsidiaries in Europe, three branches and eight associated companies.

"Our dimension [in Europe] is still small and maybe a weak point. But I hope we shall be the first company operating in Europe in the early years after 1992 to have its turnover well divided into main European countries, and not just in construction but in engineering and specialised engineering", says Mr Mosconi.

He adds that Fiatimpresit expect some difficulties operating within the single market, because public works spending is largely tied to decisions by national and local authorities which have close relationships with domestic companies.

Therefore, Mr Mosconi says, besides bidding for contracts, Fiatimpresit intends to buy stakes in European construction companies.

Its biggest venture along these lines has been to buy one-third of Hasa-Huarte, a leading Spanish construction contractor.

Fiatimpresit has also set up companies in Greece (Impretekte) and Portugal (Eteli). The management of these companies remains independent and Fiatimpresit, the common shareholder, serves as the link between them and Cogefarimpresit. Fiatimpresit is looking for more of these ventures, says Mr Mosconi. "This is our future and we are working towards it. But you also need luck."

Together with this twin approach to Europe, through bids and acquisitions, goes a product strategy. "Being a Fiat company we must stay at the highest level of technology", says Mr Mosconi.

Much of the experience gained in designing and building car plants can now be directed at the wider market and the business of Fiat's 100 per cent owned industrial engineering company, Fiatengineering, is split evenly between working for Fiat and in other industries. Within Fiatimpresit's specialised engineering divisions there are already close links with European companies.

Fisia, which Fiat claims is the only Italian company with a full range of activities in the environment field, is to set up a waste disposal joint company with Deutsche Babcock; another company, Transfima, was created jointly with Matra Transport of France to build advanced transport systems; and Segesta is a joint venture with Compagnie Lyonnaise des Eaux to manage drinking-water treatment plants.

But construction remains Fiatimpresit's core activity. From the point of view of purely Italian turnover, says Mr Mosconi, Cogefarimpresit does not need to grow any more. Public works projects include two hospitals, at Catania in Sicily and Lecco near Lake Como, and work on both Rome and Milan undergrounds.

Fiatimpresit has set up companies in Portugal and Greece

Overseas, Cogefar and Impresit – the former Fiat construction wing – have participated in projects including 70 hydro-electric plants in 35 countries, 19,000km of roads and more than 20,000 houses. Fiatimpresit is also present overseas through Impregilo, in association with two Milanese companies, Lodigiani and Girola.

However, there are two fears regarding the performance of Italian companies in Europe's single market. One springs from the fragmented nature of the industry, which means that few companies have a big financial base.

The other is that large Italian contractors have not developed the profile of general contractors, because Italy has not yet adopted a European Community directive allowing the big groups to compete for public works contracts at the first stage, involving tasks such as bids specification and feasibility studies.

In this respect, says Mr Mosconi, "the situation is changing and we think private companies will be able to have a more complete role. But we are some years behind in the learning curve."

John Simkins

More concentration of production is needed, writes **John Simkins**

Competition from imports

STEEL

Italy is the second largest steel producer in the European Community (behind West Germany) and sixth largest in the world, but the steel manufacturers' association, Federacciai, says improved quality control is essential if the industry is to compete in the single European market.

Progress is being made; 60 per cent of production is now certificated by a quality control institute, set up by the producers in collaboration with consumers' representatives and the authorities.

But Milan-based Federacciai says that lax quality control enforcement partly accounts for a sharp increase in reinforcing steel imports from Turkey and Yugoslavia. *Italy is* Europe's biggest producer in this sector, with 5.5m tonnes (of which 1m tonnes are exported), while imports account for around 5 per cent of the market.

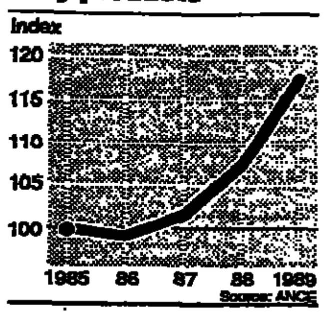
"Our civil servants are not doing enough to protect the Italian market against invasion from outside", says one Federacciai official.

The association also cites Italy's chronic energy shortage, aggravated by price rises following the Gulf crisis, as a threat to production, and fears power cuts this winter.

With an annual output of 25.5m tonnes, a turnover of L25,000bn (£12bn) and a 94,000 strong workforce, the industry comprises 120 crude steel manufacturers. Production is split evenly between the public sector, which is under the umbrella of Ilva and concentrates on flat products, and the private sector, which is concerned mainly with long products. There are 60 private companies around the northern town of Brescia, while the Veneto region in the north-east has many small and medium-sized manufacturers. However, Federacciai believes the trend is to greater concentration.

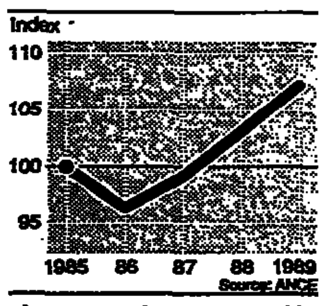
The enormous public works programme for the World Cup boosted demand for rolled products from 4.9m tonnes in 1988 to 5.6m tonnes in 1989. That is expected to be fall only slightly, and Federacciai is confident of continued heavy demand. The Christopher Columbus celebrations in 1992 are also expected to boost public works construction.

Clay products



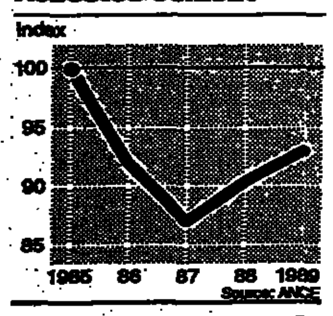
Source: ANCE

Cement



Source: ANCE

Asbestos cement



Source: ANCE

CEMENT

Cement makers have yet to make up the ground lost in the early 1980s and output is well below the maximum possible. Nonetheless, Italy remained the EC's largest cement producer in 1989, raising output by 4.2 per cent to 40.4m tonnes.

Per capita demand last year of cement in Italy, at 735kg, was the highest in the EC. But while capacity utilisation throughout all Italian industries has reached 81 per cent, cement makers are operating at only 68.5 per cent. The trade association AITEC forecasts that this could fall to as low as 66.9 per cent in 1992.

AITEC fears falling infrastructure investment as Italy grapples with its budget deficit, noting *that local authorities fail to* take up all the public works funds allocated.

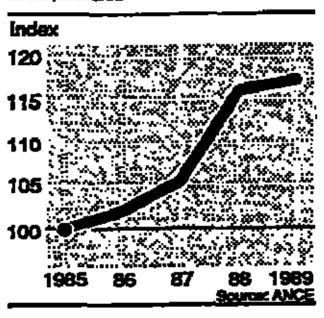
According to AITEC, investments in construction over the past three years have grown by 3.8 per cent, compared with a 10.7 per cent increase in GDP.

Cement prices, which are subject to controls, were increased in 1989 by 3.5 per cent, the first rise for three years, although AITEC says they remain 25 per cent below average EC prices.

However, despite low prices and low capacity utilisation, producers were unable to satisfy the domestic market. Imports of cement and clinker jumped 24.2 per cent to 2.4m tonnes last year, one-fifth of the market.

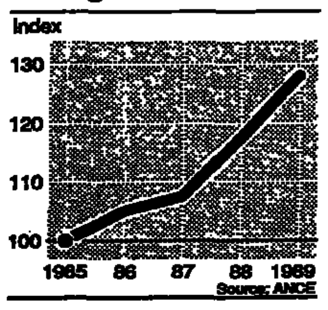
AITEC identifies the imports as coming principally from Greece, Yugoslavia and Cyprus, and claims that the assault on the Italian market has been achieved by dumping and unfair competition. The trend is said to be continuing.

Bitumen



Source: ANCE

Paving stone



Source: ANCE

Italcementi, part of the Pesenti private sector group, is the largest producer, with 36.4 per cent of last year's total output. Italy has 42 manufacturing groups and 90 factories, giving it a much greater number of manufacturers than other European countries and a less concentrated financial base.

BRICKS AND TILES

The strength of the private sector housing market has boosted output and prospects are good for 1990 and 1991.

Sales rose from 17.6m tonnes in 1988 to 18.6m in 1989. This represents a growth of 5.7 per cent, a slightly lower increase than in 1988 but considered satisfactory by ANDIL, the trade association. *At the same time,* there was continuing concentration of production and the number of factories fell by 10 to 345, compared with 690 in 1980. These are divided among 281 companies; 81 of the factories account for 48 per cent of output. The workforce numbers 18,000, well down on the level of 32,000 in 1980.

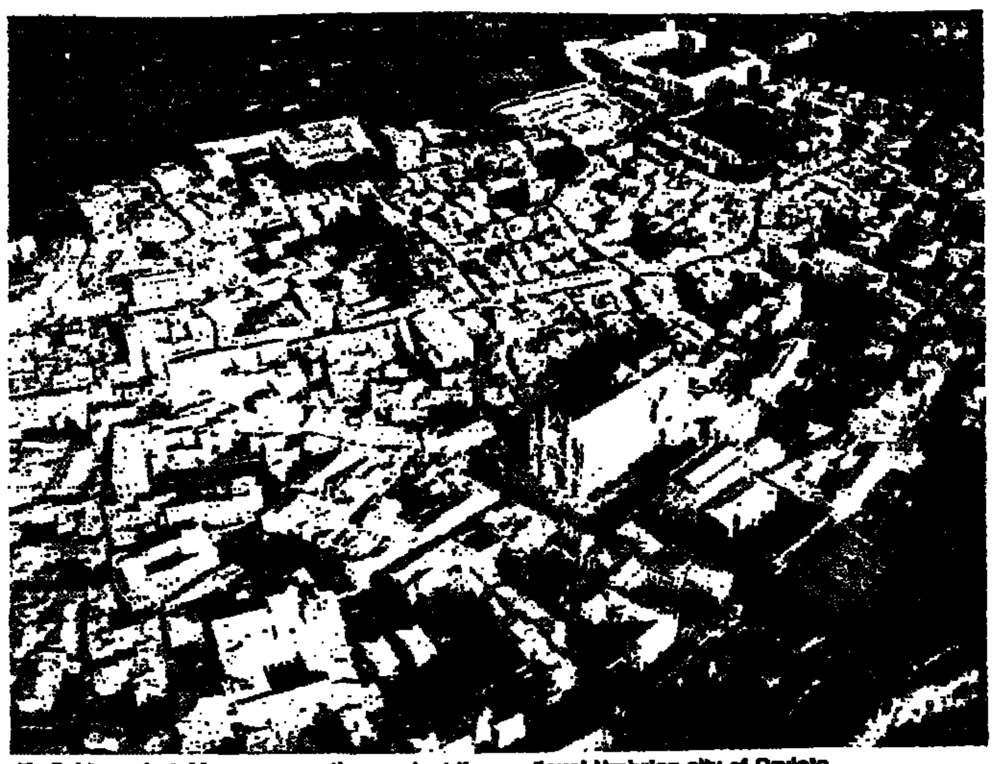
Productive capacity, however, is still more scattered than in other European countries and there are many small and medium-sized companies, particularly in the south.

New productive capacity did not keep pace with the growth in output, which meant that capacity utilisation improved slightly to 75 per cent. But ANDIL warns that "such a high level of unused capacity among so many companies represents a danger in the event of a new contraction of the market".

GLASS

The strong sales of recent years continued in 1989, with output falling by less than 1 per cent to 3.81m tonnes. Capacity utilisation was high, at 93 per cent.

The trade association ASSOVETRO reports a slight fall in hollow glass production because of a downturn in beer and mineral waters bottling. In flat glass, although the car market remained strong, temporary plant closures and a slightly lower demand for housing led to a 4.3 per cent drop in output.



Todini is undertaking conservation work at the medieval Umbrian city of Orvieto

PROFILE: TODINI

Back to the future

THANKS TO Rome-based construction company Todini, the medieval city of Orvieto will be saved for future generations. Perched on a hill midway between Florence and Rome, dominating the valley of a Tiber tributary, Orvieto has tufa rock foundations, whichare breaking up. "With its underground caves, drains, wells and water conduits, the hill resembles a geological gruyere", says Mr Aquilio Todini, nephew of the founder and a company executive.

Todini is the contractor in a project that will stabilise the city, one of the architectural jewels of Umbria. "We have completed the study phase, in which we had to employ potholers to explore and map Orvieto's underground maze. Special legislation will give the finance to undertake the task of anchoring the large mobile slices of tufa to the hill's central core", explains Mr Todini.

The company is engaged on a similar project in another Umbrian city, Todi. Here, as in Orvieto, medieval citizens excavated vaults and bored wells and channels in the clay on which their city stood, creating the conditions for twentieth century instability.

It seems appropriate that two projects placing Todini at the technological leading edge in the stabilisation of the foundations of whole historic city centres should be in the region where the company started. Todi is its birthplace.

Established by present chairman, Mr Franco Todini, in the late 1950s, the company won important contracts during the following decade, including work on the Florence-Rome Autostrada del Sole and the enlargement of the Terni steelworks.

Reflecting the change of scale, Todini moved to Rome and changed its corporate form, from sole trader to joint stock corporation, adopting the name Societa Generale Strade. "It was important to move closer to the ministries and other state bodies", remarks *Mr Aquilio Todini. A further* corporate restructuring was undertaken last year in which Societa Generale Strade disappeared, to be replaced by Todini Costruzioni Generali.

Ranked 11th in Italy's table of construction companies, Todini's turnover last year was L330bn, continuing an upward trend. The trade journal Costruire uses 1988 data to show that Todini, with L230bn turnover, closely rivals Impresit (L241bn) and Vianini (L267bn).

Though its projects in Orvieto, Todi and Venice (where Todini has undertaken special consolidation works on the island of San Giorgio Maggiore) win attention, the bulk of the company's works are in more routine areas.

Todini has built more than 400 km of autostrade and other major state highways. It is main contractor for a project to add a second track to the 100 km Bari-Taranto railway line, *has* worked on the expansion of Rome's Fiumicino airport and is restructuring and enlarging the Rome headquarters of the Carabinieri military police.

By the end of the 1980s Todini had regional offices in Venice, Perugia and Palermo, in addition to its Rome head offices, and was working on projects at 150 different sites throughout Italy. Its payroll currently totals about 2,300.

"About 70 per cent of our work is in consortium with other partners, a characteristic of construction in Italy over the past five years", notes Mr Todini. Though this may be a suitable approach for very large works, in Italy it has been adopted even for projects under L30bn. "This deforms the market and creates red tape and difficulties in project management. Although I would prefer to return to single contractor works, the emphasis on consortia seems likely to continue", he says.

In common with other Italian construction companies, Todini has forged temporary alliances to undertake specific *projects. "We will probably* look towards this approach when seeking foreign partners. This seems more natural than taking cross-shareholdings or making acquisitions", observes *Mr Todini. However, he is* open-minded about strategy for development.

Medium and long-term plans include work outside Italy, which until now has been limited to a small project in Minorca. There are prospects of road projects in Yugoslavia and Algeria, but contacts initiated elsewhere have been suspended due to problems over project financing.

But Mr Todini is convinced that the barriers will be overcome. "Contracts are difficult to win outside one's own country, *but this will change.* The Single Market in 1993 will have a real impact", says Mr Todini. Indeed, over the past year Todini has been seeking French and British partners.

*Apart from an order portfo*lio that stands at about L1,000bn, two other features suggest that Todini can face the future with confidence. First, the company gives con*siderable importance to special* works and new technologies. Its research and development work has led to patents for the hot and cold recycling of bitumen. It was the first Italian company to introduce concrete traffic barriers of the New Jersey type, and its development of luminous panels for improving tunnel illumination has also improved road safety.

In addition to those on site at its consortia projects, Todini employs about 80 engineers and surveyors. Training and career planning are crucial. "This has led to very low levels of turnover, meaning that experience remains in-house. The strength of the company is in the number and quality of its staff", states Mr Todini.

The battle against organised crime is delicately balanced. **David Lane** reports

Breaking the grip of the Mafia

WHEN MAFIA killers gunned down magistrate Rosario Livatino last month in the central Sicilian province of Agrigento, the state's impotence against *organised crime was starkly* revealed.

Mr Antonio Bargone, a Communist deputy (MP) from the Apulian heel who is deputy *chairman of the Chamber of* Deputies' justice commission and a member of Parliament's commission of enquiry into the mafia and criminal associations, says that the battle against organised crime in Sicily, Calabria and Campania *is delicately* balanced.

"Few in these regions use the legal system for matters like credit collection. When businessmen have problems of debt recovery they prefer to turn to local bosses whose organisations are more efficient", *he says.*

With organised crime's grip on business activity in the south, widespread involvement in the construction industry is inevitable. "It is part of their strategy to obtain political dominion. Organised crime can weave *itself into the entire* social fabric through public works contracts, boosting its presence and increasing its sphere of influence", observes Mr Bargone.

The large sums of money associated with public sector *construction* are *also* appetising, *and the mafia, in its various regional disguises,* is eager for a slice. Public works not only afford a means for extending influence, they also provide a *legitimate activity.*

"Through ownership of construction companies, organised crime can establish clean relations with the banking system. *They provide a way of laundering* money obtained from illicit activities like drugs, contraband and prostitution", explains Mr Bargone.

The *Ministry of* Public Works frankly admits to mafia infiltration in public works construction. However, the industry is defensive, preferring to note that organised crime is not limited geographically to Italy's mezzogiorno or sectorally to the construction business.

"Construction is involved *because of the broader issue of* the relationship between local politics and business. Businessmen are very dependent on decisions and choices made by politicians. In contrast to Anglo-Saxon countries, there is no separation between politics *and the bureaucracy.* Politicians are able to put enormous pressure on businessmen", says an executive at ANCE, the national association of construction companies.

Indeed, most recognise that companies, particularly in the south, are *generally victims* rather *than perpetrators of* criminal activities.

The extractive industries and earthmoving are almost certainly the activities where *organised crime grips most* tightly. "By taking a stranglehold on materials and basic operations, the mafia is in a position to coerce legitimate firms. *Moreover, these* activities give employment to thousands of people, thereby extending the mafia's influence", says Mr Bargone.

The Ministry of Public Works frankly admits to Mafia infiltration

That control over the supply *of materials was confirmed* less than a week after the murder of Mr Livatino, when the Naples court sequestered the assets of Eurocem, a cement importer and distributor. The chief of the region's 'guardia di finanza' customs and tax investigators *said they* had uncovered a construction pyramid belonging to the camorra's 'nuova famiglia' (new family).

Eurocem, a company with multinational *equity* from Lebanon and Panama as well as Italy, was managed by frontmen. *Imported cement from Greece and Yugoslavia* was sold at prices set by the camorra and backed by threats of sabotage against firms who failed to toe the line.

Contractors working on projects in the south are intimidated into buying from 'approved' suppliers and using 'approved' firms for earthmoving and transport. "Construction companies are even forced to pay for trips by empty lorries. Warning shots or bombs usually obtain the effect that the bosses want", says Mr Bargone.

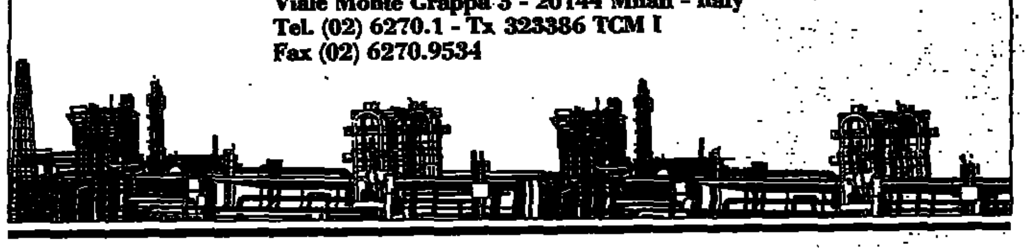
Opportunities for infiltration by *organised crime in the* mezzogiorno are substantial. During the 1950s, 1960s and 1970s, huge sums were pumped into the backward south to provide an infrastructure that had been almost wholly lacking. Housing, schools and hospitals *added to the massive* volume of public works business.

More recently, the Irpinia earthquake that hit the Campania region east and south of Naples and adjacent Basilicata in November 1980 provided a bounty for local bosses. An *astronomic level of expenditure* coupled to abysmal results has led to a parliamentary commission of enquiry. Few doubt that there was large scale diversion of funds to the camorra. Further massive public spending on the World Cup *sites offered further opportunities for organised crime.*

The state has not, however, been totally passive. Measures have been introduced to block encroachment by organised crime. The Ministry of Public Works notes that two laws have been enacted, the latest in March. "In particular, more rigorous rules have been introduced to reduce the phenomenon of subcontract and the transfer of contracts to other firms suspected of mafia-type criminal associations."

Mr Bargone was a member of the parliamentary working party that introduced the law *preventing subcontractors* being given more than 40 per cent of contracts. The requirement to notify changes in ownership or management of firms after they have won contracts is another weapon being used against organised crime.

Nevertheless, much needs to be done. Mr Bargone is deeply concerned about the way in which the mafia is extending beyond the regional boundaries of Calabria and Campania. The lower part of the Latium region, where Rome is *situated, is now infiltrated and* so is Mr Bargone's home region of Apulia. "People are becoming accustomed to live with the mafia rather than trying to combat it", he says. "Legislation needs to be updated and more resources dedicated to *fighting organised crime.*"



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HOUSING

Purchases pick up

HOUSE CONSTRUCTION

Year	Total
1982	356,613
1983	335,533
1984	351,785
1985	286,883
1986	247,788
1987	226,402
1988	196,857
1989	229,383
1990	250,178

Source: Ecosfera

HOUSEBUILDING has risen sharply during the past two years as the Italian economy has grown and individual spending power has increased. However, the market may run out of steam; international interest rates have risen and pressure on the economy is mounting.

In the public sector, the emphasis will be on reducing expenditure as the government battles with a mounting public sector debt.

Last year, the number of new homes constructed rose by 9 per cent, from 229,383 to 250,178. Since 1988, the annual total of homes built by construction companies has risen by one quarter, according to Ecosfera, an independent research organisation for the construction industry.

The bulk of these homes have been built in the private sector. Public sector construction accounts for about one-tenth of new houses, although this can rise to as much 50 per cent in some large cities.

Most homes are built by small and medium-sized private, mostly family-owned, companies. The majority of large companies specialise in large public civil engineering works, although this is starting to change. Private companies like Lodigiani have recently been breaking into both private commercial and residential markets, although the level of interest remains small.

About 70 per cent of Italian families own their own home, says Ecosfera. Home ownership has risen sharply during the 1980s as the private rental market has shrunk.

Spending on public housing last year declined to L1180bn, a fall of almost half from the L2324bn spent in 1988 and the fifth year in succession that public investment has fallen.

"The main causes", according to Ecosfera, "are the completion of some extraordinary building programmes in a ten year programme and the failure to implement projected spending targets during the past two years."

Investment by private landlords fell sharply during the mid-1980s. This was as a result of laws introduced at the end of the 1970s restricting rent increases and making it difficult for landlords to evict tenants.

The market has recently improved and investment by private landlords increased as market rents have risen. Real rents are up to three times legal levels, which are rarely applied. Few appeals against rents make it to the courts.

House and flat purchases by homeowners have also picked up after a difficult period during the mid-1980s, when prices fell in real terms.

The number of homes built annually fell from almost 357,000 in 1982 to a low of almost 199,000 in 1988. During the last two years, however, prices and purchases have risen sharply.

The market has been assisted by economic growth and interest rates which have fallen from about 18 per cent to currently about 13-14 per cent, says Ecosfera.

Gross domestic product has risen steadily during the past decade; wages are also higher in real terms.

Housing has become a good investment once more as inflation and interest rates have fallen. The percentage of families owning their own home has risen from just under 65 per cent in 1981 to just over 71 per cent in 1988, according to the trade federation, ANCE.

The fear is that as international interest rates rise and the world teeters closer to recession that private sector investment in commercial as well as residential property will suffer and the market will retreat over the next 18 months.

Andrew Taylor